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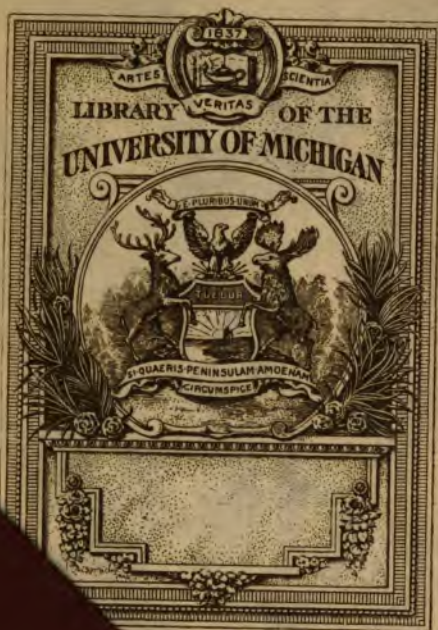
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EXPORT POLICIES

PART I

DETERMINING EXPORT POLICIES

By

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United States Department of Commerce*

PART II

EXPORT POLICIES EMPLOYED IN CERTAIN LINES

Compiled under the Direction of

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Being the Third
Unit of a Course
in Foreign Trade

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Edward Leonard Bächer - *Secretary*

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V. Direct Exporting	Walter F. Wyman
VI. The Export Salesman	Paul R. Mahony
VII. Shipping	{ Emory R. Johnson Grover G. Huebner
VIII. Financing	{ E. A. DeLima J. Santilhano
IX. Export Technique	Edward L. Bächer
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XI. Importing	Carl W. Stern
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PREFACE

AN adequate treatment of the subject of export policies falls logically into two parts—general principles and special practises. The compilers of this Unit of the Course are indebted to Dr. Edward Ewing Pratt for his contribution on "Determining Export Policies," which clearly analyzes and states the principles applicable to foreign trade as a whole. In dealing with the methods practised in special industries, it has been obviously impossible to include all of the important lines or to give an exhaustive treatment. In the preparation of the second part of the Unit, however, the compilers have enjoyed the assistance of many men, possessing expert knowledge of the industries considered. They have included in that section what seemed to them the more salient and more important facts relating to the specific export policies.

Mr. P. C. Williams, of W. R. Grace and Company, has prepared the chapter on Iron and Steel Products; Dr. W. C. Huntington, Commercial Attaché of the United States Department of Commerce, Petrograd, Russia, the chapter on Machinery; and Mr. W. A. Graham Clark, Agent of the Bureau of Foreign and Domestic Commerce, Boston, Mass., the chapter on Cotton Goods. We take this opportunity of expressing our indebtedness not only to the gentlemen named, but also to the many others who have assisted in the compilation of facts and in the editing of this volume.

E. C. P.

P. B. K.

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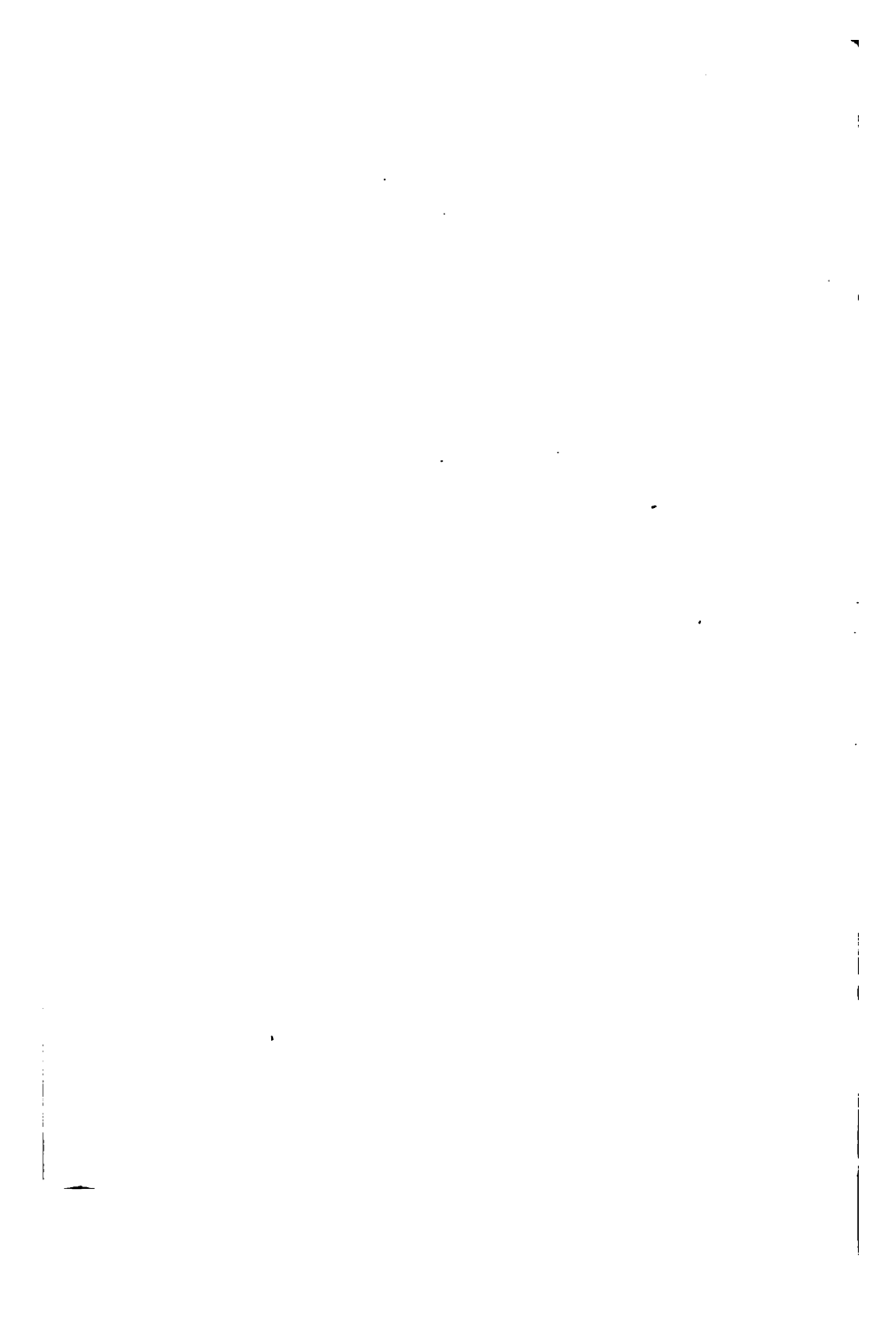
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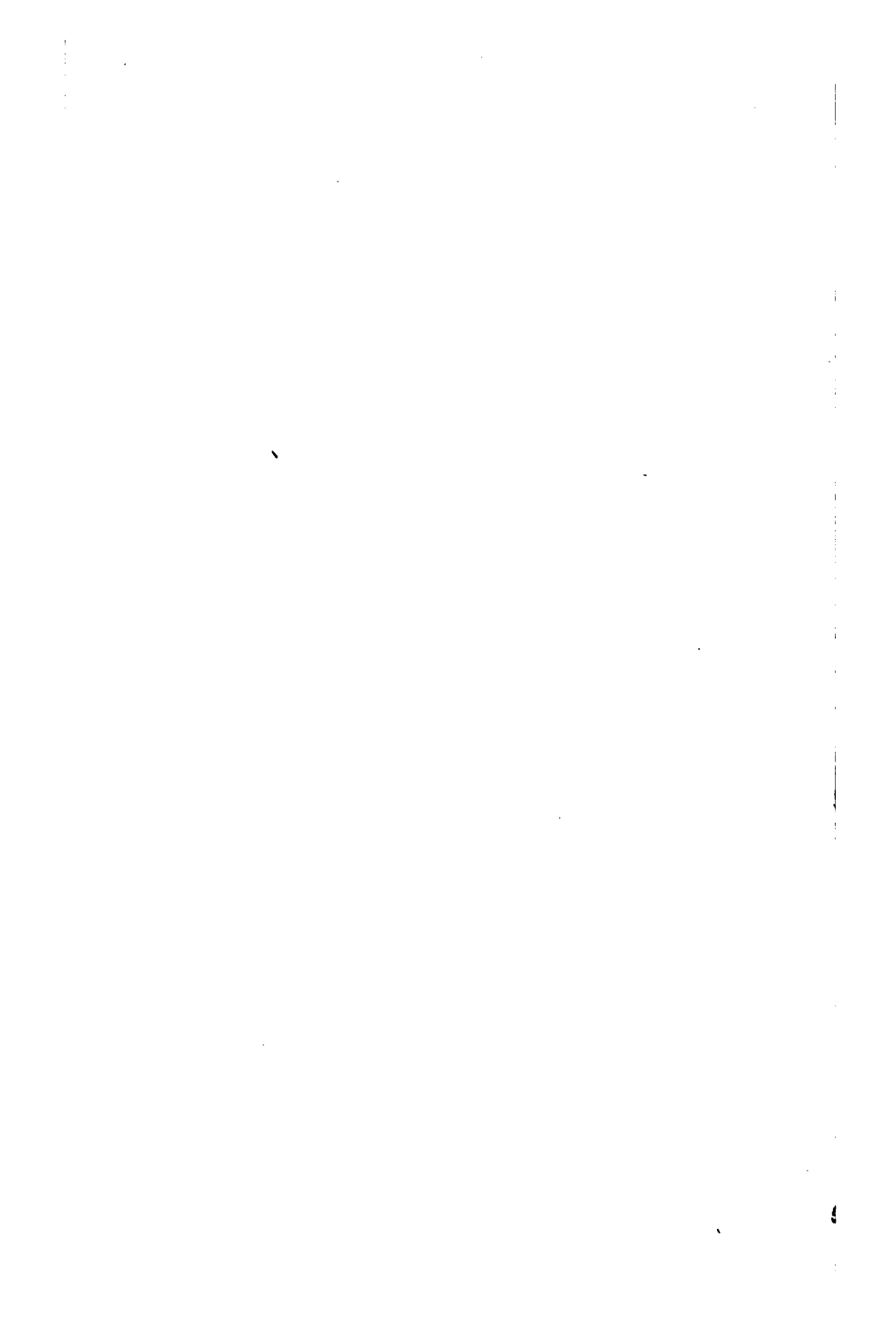
Policies and Profits

THE exporter without a policy is a general without a plan of campaign, a builder without a blueprint, an explorer without a map. In domestic trade his type was the country corner store with its rule-of-thumb and its cracker barrel, which vanished for lack of profits. "Drift" was its motto. With the rise of organized marketing methods, the type had to give way. Random sniping is futile against machine-gun fire, be it warfare or business. Policies precede profits.

Policies are not creatures of the imagination. The army staff relies on a study of past and present wars for its future plans; the builder knows where those who have built before him have worked faultily and where well; the explorer knows where his predecessors have met with success or disaster on the trail to unknown lands. Policies profit from the past and the present.

Foreign trade possesses no magic quality that can conjure up profits from a business that has neither plan nor policy. Foreign trade is not so new and not so untried but that the exporter can find plenty of records of other men's failures and other men's successes by which to guide his own efforts. Foreign trade demands its policies before it will yield its profits.

Part I
DETERMINING
EXPORT POLICIES



I

Preliminary Planning

IN laying out a marketing policy for foreign trade, it is of utmost importance to begin right. This means not only that the policy adopted should be the right policy, but that it should be laid out in advance. The manufacturer or merchant cannot reasonably expect to get the best results from his export department, or from his export business, if he must change his policy upon the appearance of every new problem. If the manufacturer has not foreseen the many difficulties that will arise in the conduct of his export business and has failed to frame a policy that will comprehend these problems, he has not started in the right way.

As a matter of fact, there is no essential difference between the conduct of domestic trade and the conduct of foreign trade. The methods that the manufacturer has used with success in developing his domestic trade will, under normal circumstances, be successful if applied to his foreign trade. There is nothing subtle or mysterious about foreign trade. There are, it is true, many surface differences, many details that vary from those

*Domestic Policies
Apply to
Foreign Trade*

ordinarily encountered in domestic business. But these differences are of comparative unimportance. The vital things in business are the same in foreign trade as in domestic trade.

Suppose we take, for example, a manufacturer who wishes to develop a new market on the Pacific Coast. What will be his usual line of procedure? As a beginning, he is likely to visit the Pacific Coast to see for himself the conditions there. He will probably send out his sales manager, who will study in a general way the sales methods in use on the Pacific Coast and lay out a selling campaign. Even then the preliminary survey is not complete. The manufacturer—especially if his is a large concern and careful in its business methods—is likely to send out three or four field business investigators who will go into details thoroughly and minutely. If the preliminary reports are favorable, the manufacturer will set aside a small advertising appropriation with a view to testing his market. He may then send out a salesman, but he will scarcely expect the salesman to show a profit at the end of the first trip. Gradually, as the business develops, he will add to his sales force. He may later establish a branch office, a warehouse, a store or even a factory in the new market.

Let us see how the same manufacturer would probably start out to develop a foreign

market. He would probably first attempt to acquaint himself with books and other literature on the markets he intends to exploit. Next, he would probably write to an American consul, with the request, "Please send me a list of persons in your district who would like to buy or to handle my line of goods." Or, he might get some of the trade directories, published by the Bureau of Foreign and Domestic Commerce, or buy one of the nondescript lists that are often sold for such purposes.

*The Wrong Way
to Develop a
Foreign Market*

He would then write or circularize the names thus obtained, probably writing in English and sending out catalogs printed in the same language—very likely the same catalogs he is accustomed to use for the domestic trade. Perchance, he would receive an order. Immediately, without stopping to look up the credit rating of his customer or to take any of the precautions that he would take before filling an order in Baltimore or Chicago, he would ship the goods. No doubt he would pack them in exactly the same way that he packs goods for Baltimore or Chicago. If he experienced no serious mischance, he would then send out a salesman, but invariably this manufacturer would expect the salesman to show a profit at the end of his first trip. If

the sales failed to materialize, he would immediately say to himself, to his directors and to his friends, "There is nothing in this foreign trade. I have tried it and it does not pay."

There may be some objection to this comparison. It is often said that selling methods must be different. This statement is heard most frequently perhaps in relation to Latin-America. While the pushing, go-ahead salesman may make a great success in the United States the same salesman would be odious to people in South America. It is also held that the salesman who goes to Latin-America must be polite and courteous, that business is not done in the same breezy fashion that characterizes transactions in the United States.

Some Surface Differences

These facts are undoubtedly true. They constitute some of the surface differences already suggested. But the differences between the United States and South America are scarcely more pronounced than the divergence in the methods used in various parts of the United States. Every sales manager knows that he cannot use the same sales methods in New York that he would use in San Francisco, and certainly he cannot use the same sales methods in Chicago that he would use in New Orleans. The differences in sell-

ing methods between, for example, New Orleans and Buenos Aires are scarcely greater than those between New Orleans and Chicago.

Much has been said in the press and in public addresses to the effect that we cannot hope to get foreign business until we are willing to make our goods as our customers abroad desire. It is asserted that we do not do so and that we are therefore at a serious disadvantage

*Catering to the
Foreign Buyers'
Wishes*

in competing with England and (especially) Germany. As is the case with most other general statements, there is both truth and fallacy in this. It is true that the tastes of our customers determine to a very large degree the kinds of articles that they will buy. In articles where color, form or flavor are important, we must cater to the customers' wishes.

There is another class of articles the form and character of which are determined, not by the tastes of our customers, but by their environment. For example, the character of the soil and of the draft animals found in various parts of the world determines the kinds of plows used. The same factors control with just as great force in the domestic as in the foreign market. The style of plow that is desired for the sandy soil of New Jersey is not the kind that is adapted to the prairies of Iowa and Nebraska. In this and other lines where

physical conditions necessitate the use of certain articles or specific types, it is folly for the manufacturer to attempt to put something else into that market—some other article not suited to the existing physical conditions.

Then there is a considerable class of articles that do not come under either of the two categories just mentioned. In every line of business there is a type of article in the making of which the manufacturer of the United States surpasses the manufacturer of every other country, because of the acknowledged superiority of his product.

For example, in certain parts of South America old-style locks are still used; the keys are so long that they must be jointed in the middle to make it possible for one to carry them in the pocket. Now it is patently absurd for the manufacturer to attempt to make these old-fashioned locks when we produce a lock that is not only better but in many cases cheaper. When the American manufacturer's article is manifestly superior for the purposes in view, it is the duty of the manufacturer to place his better article on the market rather than to imitate the poorer or obsolete patterns that may be sold by his competitors of other countries.

The general principle is exactly the same as

that which the manufacturer would employ in his domestic trade if he found that some competitor was offering an archaic article and expecting it to do the work. No matter if his customers want his competitor's article, no matter if they prefer it because they have used it for many years—he should not hesitate to inaugurate a selling campaign to show them the advantages of his superior product, and urge them to buy it. Precisely the same thing should be done by the manufacturer who is going into foreign trade. The superior article should be pushed in every market, regardless of the articles already on sale.

This is the first rule that should guide the manufacturer in planning his marketing policy for foreign trade. Let him apply to his foreign business exactly the same fundamental business principles that he would apply to his domestic trade. If the manufacturer adheres consistently to that rule, he will be as highly successful in foreign trade as he is in domestic trade.

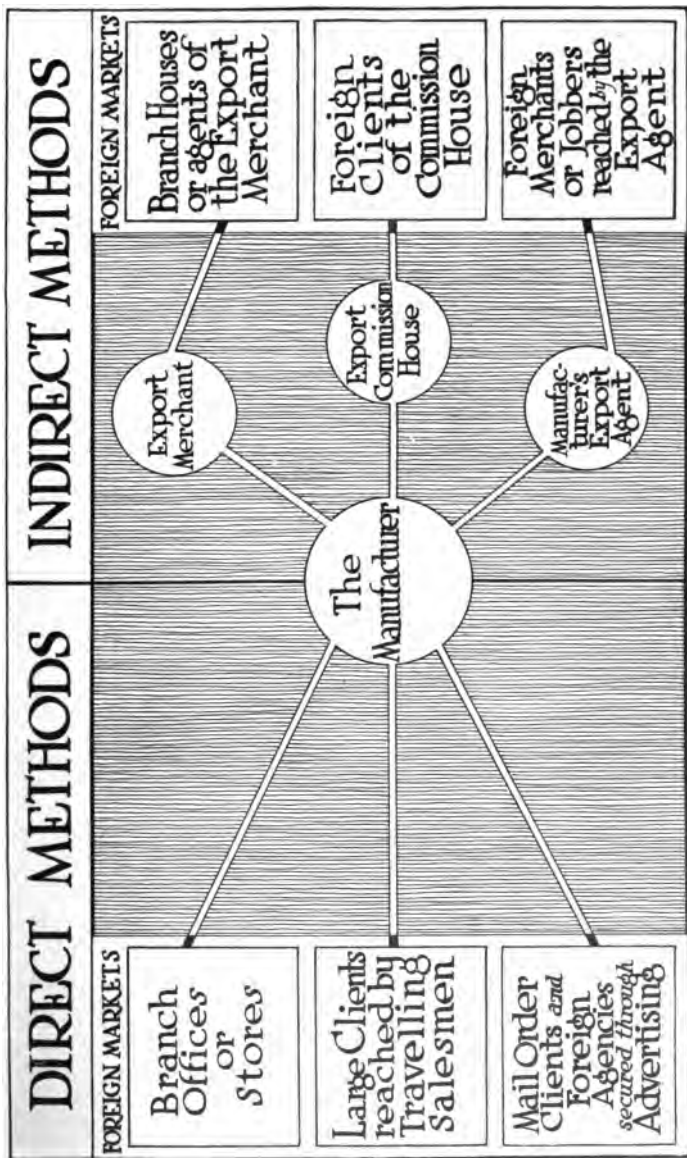
II

Methods of Exporting

THE manufacturer who expects to enter foreign trade may choose from a number of different methods. These may be divided into two classes—first, the methods of direct exporting; second, those of indirect exporting. In direct exporting, the manufacturer organizes an export department and himself exports the goods and pushes their sale in foreign countries. In indirect exporting, the manufacturer utilizes the services of some intermediary outside of his own organization, and has no direct interest in the goods after they have left the United States.

Let us consider first the general methods of direct exporting.

The manufacturer who wishes to export direct must, first of all, organize an export department and place in charge of that department a competent executive. Having established the export department and having decided to do business direct, the manufacturer and the manager of the export department have still to choose from several different methods.



HOW THE MANUFACTURER CAN REACH THE FOREIGN RETAIL MARKETS

Many manufacturers have established branch offices in foreign countries and conduct their affairs from these local nuclei. When the size of the business and the volume of sales warrant its adoption this is undoubtedly one of the best and most efficient methods of carrying on foreign trade. As is the case in domestic trade, branch offices enable the manufacturer to divide up his sales force and to get more individual supervision of his selling units and more intimate contact with the market. In connection with the branch offices there may be, as the case requires, warehouses, show-rooms, sample rooms or even retail stores.

*Direct Exporting
Through Foreign
Branch Offices*

Most manufacturers, however (at least in beginning their foreign business), find it necessary to rely upon the services of individual travelers. A salesman well equipped with information concerning his product, with samples and other information, speaking the language of the market to which he is sent, and possessing the other numerous qualifications that an export salesman must have, should be able to do a large business in most markets provided he does not attempt to combine too many lines. It is impossible to conceive how a salesman representing from six to 30 lines will

*Through Export
Salesmen*

be able to devote real selling ability to each of those lines. Inevitably the salesman will find it to his interest to push one or two or three of the lines and to leave the others without special attention. Inevitably the majority of the manufacturers entering into such a plan would be dissatisfied with the result. Applying to export salesmanship the same rule that has been applied to export trade in general—namely, that it must be measured by the same measuring rod as domestic trade—the manufacturer can easily differentiate between good and bad selling schemes.

In almost every market there will be found a certain type of concern that should interest the American manufacturer who wishes to sell

*Through Foreign
Agencies*

abroad. It might be called the local importing house. In many cases it conducts large distributing agencies. The American manufacturer may do business directly with these concerns, but this does not mean that he comes in direct contact with the ultimate consumer.

It is necessary that the manufacturer assure himself as to the credit responsibility of the agent; also he must make all the arrangements for manifesting, invoicing and shipping his goods. In many overseas markets these general importers make excellent representatives for American concerns, especially concerns

that do not see fit to establish their own branch offices. In the more highly developed markets these agencies specialize in certain lines of business such, for example, as machinery, general merchandise or dry-goods. In other markets, less developed, similar concerns will be found handling every known type of merchandise.

The manufacturer, in selecting one of these importers to extend his business, will find that he can obtain a large amount of credit information with reference to them. He has at his disposal not only the services of the usual credit agencies but also the records of American concerns that have done business through these houses. Ordinarily the agency will accept representation only for a single manufacturer in any one line.

This method of direct exporting enables the manufacturer to come in closer contact with his markets than he could through any of the indirect methods to which reference will presently be made, and at the same time it enables him to utilize the services of concerns that not only have been established for years but also are well-acquainted with their respective local clienteles.

In case the manufacturer desires the more exclusive services of an individual representative, he may find responsible persons who are

willing and able to push his products in certain foreign markets. Such agents, as is the case in domestic trade, are likely to be less reliable than old-established well-organized importing concerns. But the manufacturer who has used due care in the selection of his agents may find this a successful method of exploiting foreign markets.

If the manufacturer decides to accept either of the last two methods mentioned, it would be well for him to recognize that he can get the best results from such methods only by keeping closely in contact with his representatives. The manufacturer is indeed foolish who appoints his agents and who never comes personally in contact with them or who never sees how they are doing business. It is likely, and has happened time and time again, that some importing concerns in a fruitful foreign market have accepted two or three or even more competing lines, not with the idea of pushing that line but for the purpose of keeping it out of the market. The manufacturer must guard carefully against this type of concern, and the only really effective precaution is not only to draw his contract in a manner to protect all his interests but to keep so closely in touch with his agent, either personally or through trusted representatives, that no improper or unfair practices can overtake his business.

In discussing the subject of exporting, the question frequently comes up: "Can a concern in the United States do a mail-order business with other countries?" The answer to this question is similar to the answer to other questions that have

*Through the
Mail-Order*

been asked with reference to export trade. If it can be done in the domestic market, it can be done in the foreign market. Of course our postal arrangements with foreign countries are not so satisfactory as local postal arrangements within the United States. Some difficulties will be experienced in sending small articles, but some of our large mail-order establishments have nevertheless been able to secure a considerable foreign business.

The manufacturer who expects to do a mail-order business in foreign markets must make a very careful study of the various advertising mediums at his disposal, of the arrangements for sending small sums of money between the foreign country and the United States, and finally of the methods of shipping his goods to the purchaser abroad. All of this information is readily available, and the manufacturer should have no difficulty in thoroughly informing himself with reference to these points.

Let us now consider some of the indirect methods of exporting.

Many manufacturers are, I believe, unduly prejudiced against the middlemen in foreign trade. They do not realize the expert services and the real function of the intermediaries in connection with the development of a foreign business. Too many manufacturers are inclined to say to themselves, "This middleman simply takes a profit out of me in the shape of a commission for a service that I could just as well perform for myself." Now this is not the case, and I shall explain in some detail later the various advantages of the middleman method of doing business in foreign markets. The manufacturer would do well to approach the subject with an open mind and try to discover how he can utilize the services of an intermediary to his own advantage.

In the following paragraphs I shall attempt to define the functions of the professional export house. The methods which are in use by the various types of professional exporters are not exclusive and distinctive. The various theoretical functions which distinguish one type of exporter from another are not to be found clearly illustrated in practice by any one exporting concern. There is confusion and duplication of functions. One export house may carry on most of its business as an export commission house and an-

other part of its business as an export merchant. It is difficult, therefore, to find clear-cut illustrations of these functions. It must not be supposed by the student that any one exporting house does business exactly as defined. In practice one concern may do business by one, two or three of the methods.

Perhaps the most important of the various methods of indirect exporting is the export commission house. There are many commission houses at all of our sea-ports, but especially at the port of New York. Similar types of exporting houses are to be found

*Indirect Exporting
Through the
Commission House*

in all of the large exporting centers in Europe, especially Liverpool, London, Hamburg, Bremen, Copenhagen, Rotterdam and ports of similar position and importance. Much confusion has arisen in the minds of American manufacturers because they have not clearly understood the functions of the export commission house. The export commission house (or the indent merchant, as he is called in Europe) executes orders in the United States for purchasers located in foreign countries. The professional export commission house, therefore, is not in any sense a seller of American merchandise in foreign markets. It is rather a purchaser of American commodities for the foreign buyer. It charges a commis-

sion, not to the American manufacturer of whom it purchases the goods, but to the foreign buyer for whom the purchases are made.

This is the general theory underlying the existence of the export commission house. But, as in the case of so many of our commercial institutions, the practise has developed far away from the theory. This has caused much misunderstanding with reference to the commission merchant's true function in export trade. Manufacturers ask: "Why is it that the export commission house charges a commission both to the manufacturer in this country and to the buyer located in a foreign country?" The reason is that the commission fixed by custom and on which the commission houses must do business is too small, and therefore a commission must be charged at both ends.

A commission house cannot properly accept the representation of any manufacturer's line in a foreign market, since in the overseas transaction it primarily represents the foreign buyer. The idea is that the buyer in the foreign market pays it a commission, not for *selling* him merchandise, but for *buying* that merchandise for him at the very best terms obtainable. The manufacturer, therefore, cannot expect the commission house to exploit his goods. He must realize that it will

buy his goods only on the very best terms, and only when it has actual orders in hand or can see an opportunity to dispose of them immediately. The manufacturer must not complain if the commission house with which he has decided to do business makes no sales for him. The commission house may have received no orders and therefore cannot be expected to execute them. On the other hand, the manufacturer is entirely released from all responsibility as to the collection of the final payment for the goods. Ordinarily he is paid by the commission house on his usual domestic trade terms. He ships the goods to the commission merchant and generally does not know the name of the purchaser—in many cases not even the destination of the goods.

The second method of indirect exporting is that represented by the export merchant. In practise the functions of the export commission house and the export merchant are almost hopelessly intermingled, and this again causes confusion in the mind of the manufacturer as to the true function of the middleman in export trade. The export merchant in theory does not buy or sell on commission. He purchases the goods outright and sells them outright for whatever profit he can make or for whatever losses he may sustain. The export merchant

*Through the
Export Merchant*

has attained the greatest importance in markets that are least developed. He is an exporter who in many cases maintains a string of warehouses in a certain foreign market. Frequently he operates retail stores in connection with those warehouses.

The manufacturer who does business with the export merchant does it with that particular merchant because he offers the most satisfactory terms. There is absolutely no essential difference so far as a manufacturer's business is concerned between doing business with the New York export merchant and doing business with any jobber or wholesaler in the same city. As in the case of the export commission house, the manufacturer must expect no special selling service when selling his goods to the export merchant. If it is to the interest of the latter to exploit any special line of goods, he will do so. He will buy his goods in the cheapest markets and will sell them to the best advantage.

The third method of indirect exporting is that which will probably appeal to most American concerns which desire to have their goods exploited and vigorously pushed in foreign markets, but are unwilling to be bothered with the details involved in actually taking care of all shipments, looking up all

*Through the
Manufacturer's Agent*

the credit ratings and investigating the markets. This method makes use of the manufacturer's export agent.

There are concerns in the United States that are doing an increasingly large business by accepting agencies for a limited number of American manufacturers and exploiting their goods in foreign markets. These houses usually specialize in some particular commodity, such as textiles, machinery, boots and shoes. They charge the manufacturer a commission, usually a larger one than is charged by the export commission house. They put real selling service into the distribution of the goods. They are the manufacturers' representatives. At the same time, they save the manufacturer all the trouble and annoyance of technical export detail. The type of manufacturer's agent referred to in this paragraph is not the small concern or the individual manufacturer's export agent representing only one or two concerns, and having only desk room on some back street in New York, but the larger concern representing many manufacturers and doing business on a wholesale scale.

The manufacturer's export agent represents, in my opinion, the coming method of doing export business through an intermediary. I am inclined to believe that, with

the further development of foreign markets and their increasing advancement and complexity, the commission house and the export merchant will gradually give way to the more specialized services of the manufacturer's export agent.

*The Services of
the Export
Forwarder*

In addition to the exporting instrumentalities already explained, there is the export forwarder. The forwarder performs an extremely useful service. Many manufacturers are unwilling to give the time and attention necessary to take care of their foreign shipments.

They wish to be released from the details connected with shipping. Such manufacturers will find in the export forwarder a real helper. He does not sell the goods; he merely ships them. He is willing to attend to all the details connected with export manifests, shipping documents, consular invoices, putting the goods on board the ships, delivering them to the foreign purchaser, and similar services. He is to the manufacturer engaged in exporting what the local freight forwarder is to the domestic concern that wishes to be relieved of shipping difficulties. The export forwarder in some few cases performs other services, such as executing orders in foreign markets, but this is supplementary and not a part of his regular function.

There are certain general advantages and certain general disadvantages with reference both to direct and indirect exporting. These advantages and disadvantages are much the same as those that obtain in domestic trade and which differentiate direct business through representatives, salesmen, agents, branch houses, branch stores, etc., from indirect business through middlemen, such as wholesalers, commission houses, jobbers, retailers. It is difficult to lay down explicit general rules as to which is best or which is least desirable under all circumstances. In certain cases one method may be preferred and in others a wholly different mode of procedure may yield the most satisfactory results. There are, however, certain general conclusions with reference to direct exporting and the middleman in foreign trade that may be of value to the student. It may be worth while, first of all, to call attention to the fact that the export commission house or jobber is in a position not unlike that of the commission house or jobber in our own domestic trade. Like the latter, the export house is a feature of an undeveloped commercial system. With a higher development and increasing complexity of our commerce, the export commission house will surely pass out of existence, just as the domestic commission

house is passing out of existence. This has already happened in such markets as Europe and Canada. That day, however, is so far distant that we need not consider it. It is worth while, however, to recognize the fact that the commission house is doing in export trade exactly what the commission house did in domestic trade a few years ago.

The export commission houses and export merchants find their best field in those parts of the world where the population is sparse and trade and commerce are not fully developed. This is true especially in those parts of the world where the local dealers handle everything from needles to pianos. In those limited markets a profitable business can be carried on only by the concern that is able to furnish commodities for practically all the wants of the community.

The export house is particularly well-qualified to represent the small manufacturer—the manufacturer whose volume of sales does not warrant the establishment of foreign representatives. The manufacturer may be disqualified in this respect on account either of the small margin of profit or the limited volume of sales. There are a great many manufacturers in the United States today attempting to do a direct business who might be dealing more economically through the export house.

The export houses of the two types mentioned are well-qualified to handle foreign business where financing is necessary. Many manufacturers in the United States are unwilling, or unable, to give the usual terms that are expected in foreign trade. The export commission houses and the great export merchants, who are also bankers, have a large field before them in helping to finance the manufacturer's export business.

*Advantages of
Indirect Exporting*

The experienced manufacturer's agent is prepared to handle the foreign business of a firm unfamiliar with overseas trade or a firm that desires to have its products go abroad but does not care to build up an export department or concern itself with technical details. The manufacturer's export agent has acquired by long experience an expert knowledge of these details of consular regulations and methods and all of the minutiae of legal requirements. It has, moreover, an expert knowledge of the freight situation; and by reason of its large shipments it is able to secure the lowest possible rates.

The export house has gathered expert knowledge on credits. In fact, until very recently it has had almost a monopoly on this line of information. No other agency has had such facilities for obtaining and keeping up-

to-date credit information—although many of the export houses have not made adequate use of their advantages in this regard.

One of the great difficulties that the manufacturer who is dealing direct with customers in foreign countries has to meet is the problem of settling his legal difficulties. Lawsuits brought in most foreign countries are almost an insuperable obstacle to the independent manufacturer or the manufacturer who does not have personal representatives in each country. It is here again that the export house has a considerable advantage.

In short, a more exact and up-to-date knowledge of the export field cannot be obtained by any one except the very largest manufacturer—one who is willing to put a tremendous amount of time, energy, and capital into the development of a particular (and perhaps highly specialized) line of business.

There are, however, certain specific advantages which the manufacturer who is willing to go into the business direct will have over the manufacturer who wishes to do business only through the middleman.

At best the manufacturer who sells in foreign markets is many hundreds or thousands of miles away from the ultimate destination of his goods. It is a great advantage to the manufacturer to come closely in contact with

his market, and his field personally, and to know the kind of goods that are most salable in each specific field. To accomplish this, he must be prepared to meet, and deal effectively with each problem as it arises.

It goes without saying that the middleman cannot be expected to represent the line as efficiently as the manufacturer himself would. The mere fact that the business must go through the hands of an intermediary means that there is to be less personal interest and less enthusiasm put into the marketing of the product than would be the case if the business were done direct.

Further, we must not forget that when the manufacturer entrusts the development of his foreign markets to an intermediary he does not really build up for himself a foreign business. If the in-

*Disadvantages of the
Indirect Methods*

termediary at some later time wishes to discontinue selling the manufacturer's products in order to take up the representation of some competing line, there is nothing to prevent him from doing so. The manufacturer who places himself in the hands of an intermediary must recognize clearly that in return for the intermediary's services in building up the trade, he voluntarily gives up that particular market for the exploitation of his goods. In other words, if the manufac-

turer wishes to do a *permanent* business he must do it direct.

*Prevailing Export
Methods in Europe* In Germany the tendency among the export houses has been toward the manufacturer's-agent type. Most of the successful professional export houses in Germany have accepted the principle of representation; instead of doing business on a commission plan and representing the foreign purchaser in Germany, the export house has, rather, represented the manufacturer in foreign markets. In other words, the German middleman in export trade has shown a tendency to act in behalf of the manufacturer and actively push the sale of his goods abroad. This movement has gone so far that in many cases associations of German manufacturers have been formed for the purpose of promoting their interests in foreign markets, and these associations have become, to all intents and purposes, professional export houses, specializing in one line of goods.

In England, however, the export trade has clung more closely to the old indent merchant or strictly commission house business than either in Germany or in the United States. The indent merchant does a much larger part of the business in the London and Liverpool markets than in either New York or Ham-

burg. To a certain extent the export merchant has developed there, but the export merchant and the manufacturer's agent are less important factors in the export trade of Great Britain than they are in that of the United States.

There is another tendency in the development of export business that it is worth while for the manufacturer to consider. This is the tendency to make the intermediary the financial representative in the transaction. In Great Britain many of the export houses, which once upon a time actually handled the goods, shipped them and sold them to the customers in a foreign country, have become merely the financial intermediary between the purchaser residing in a foreign market and the seller at home. A similar development is likely to take place in the United States. The American manufacturer will probably desire to push his goods in his own particular way, but he will be less willing to finance those sales. He will call upon the export commission house or the export merchant to finance the transactions. Therefore, the export house may be expected to develop in the direction of a financial institution and to do very much the same kind of business that is now done by the London acceptance houses.

III

Selecting the Right Method

NO more important decision can be made by the manufacturing concern than the decision whether or not it will engage in foreign trade. This is a question that far outranks in importance the determination to acquire a rival establishment, to build a new plant, or to enlarge the capitalization. It is of far more significance than the resolve to take up the manufacture of a new line of goods or to put a new product on the market.

The selling of an occasional order in a foreign market does not constitute foreign trade.

The real decision to be made is whether to go

*What Entering
Foreign Trade
Should Mean*

in permanently or to stay out permanently. A determination to engage in foreign trade involves the setting aside of a large amount of

capital for the specific purpose of developing an overseas business. It means the inauguration of a new department in the business. It recognizes the need of familiarizing oneself with a vast complexity of laws, regulations, languages, rates, trade customs and conditions that are different from those with which any part of the business has dealt heretofore.

The manufacturer must determine on the basis of careful study whether he wants foreign trade, whether he needs increased out-

put, or whether he can get along equally well without outside markets.

But perhaps even more important than the details that must be considered and the money that must be invested, is the brains that must direct the foreign trade for the export department. A decision that involves so much, that means the investment of such a considerable amount of money, must be made only by the highest directing body in a business concern. It must be made with the full knowledge that, if the business is to be a success, it is the most momentous decision that the manufacturer can make.

Next in importance is the formulation of the export policy. Whether the prospective exporter will use this method or that one is a matter to be determined, not on the spur of the moment, but only after the entire subject has been fully investigated and every determining factor carefully considered. Then and only then will the highest governing authority in that concern be prepared to arrive at a just conclusion concerning the foreign trade policy needed to accomplish the desired ends. That policy—perhaps more than the domestic policy—consists of many elements. Let us, therefore, examine some of the important facts with reference to the essential features of a foreign trade policy.

After the decision to embark in foreign trade has been made the next problem presenting itself for solution relates to the executive direction of the export business. This includes the choice of the export manager and the selection of the best possible markets for exploitation.

Executive Oversight The export department requires executive oversight to a greater degree than any other branch of a business. The manufacturer who resolves to embark in the export trade, and to establish a distinct department for handling this phase of his enterprise, should see to it that the export department is put in charge of a vice-president. If the size of a manufacturer's business does not warrant the organization of a separate department, then the export business should have the personal attention of the executive head of the concern.

Selecting Export Manager and Territory The first and perhaps the most important of the executive problems to be met will undoubtedly be the appointment of an export manager. In general, the manufacturer has two possible choices: a man from the outside who knows exporting, or a man from the inside who knows the particular business. Fortunate indeed is the manufacturer who has a man in his establishment with a knowledge of

exporting, because the former man in the alternative indicated ordinarily lacks knowledge of the business and the second lacks breadth of view.

The next problem for executive decision will be the choice of territory. Such a decision cannot be made intelligently by one who is unfamiliar either with the conditions in the world's markets or with the particular products under consideration. It is not to be expected that flannel underwear can be sold in Egypt or heating-stoves in Java, although manufacturers have tried to do both. The nature of the manufacturer's product and the conditions in foreign markets are the two factors that determine the particular fields that may be most desirably and profitably exploited.

It is a part of the executive policy to decide how far the manufacturing processes are to be changed in order to meet the differing demands encountered in foreign markets. The directing authority must also determine how far the methods in an establishment are to be re-arranged so as to handle export business most expeditiously. The matter of packing is a case in point. The manufacturer who is unwilling to change his packing and shipping system so as to prepare the goods for shipment in

*Other Executive
Problems*

accordance with export requirements had better not engage in foreign trade.

The manufacturer who has decided to go into foreign trade, and who has placed his new enterprise in the hands of a competent executive, has at his disposal, as we have seen, three essentially different methods of doing business: First, the system of selling direct; second, that of selling through manufacturer's agents; third, that of selling through export commission houses and to export merchants. Under direct selling is included the direct exploitation of foreign markets through salesmen, branches, exclusive dealers and through the mails. All of these methods have been explained briefly in the preceding chapter.

It has been my privilege during the last few months to meet many manufacturers who have entered foreign trade or were seriously contemplating such action. I must confess my surprise at the very limited knowledge that many of them possess and the amount of misinformation that most of them have acquired. I cannot hope in the short space at my disposal to cover fully all the factors that must be taken into consideration by the manufacturer in determining his selling policy. I hope, however, that some of the points that follow will lead the reader to consider, in so far as his own business is concerned, what policy is best.

Let us first suppose that the manufacturer has decided to go into direct exporting. He must next decide whether he will establish his own agencies, whether he will send out salesmen, or whether he will do his business by mail. He must determine where his agencies will be located. He must decide upon methods of picking out the managers for those agencies. He must decide whether he will use a native of the country, or whether an American sent out from the United States is to be preferred. He must decide on the type of man who is particularly fitted for an agency in any given country that he has under consideration. Then he has to decide whether or not he will back up his agencies with a selling force. In that event, he must keep careful watch to see where and how he will secure the most competent salesmen. He must find out where he can most readily obtain salesmen speaking the languages of the countries to which they are to be assigned.

*Problems
Connected with
Exporting Direct*

For example, the manufacturer who considers China as a market must decide what bearing the compradore system will have on his choice of sales methods. He must recognize that he can scarcely expect his salesmen to do business with the Chinese retailers, or even with the large native jobbers. These or

similar questions must be decided in considering many other markets, especially those in the less-developed sections of the world.

The manufacturer must further consider the necessity of making a thorough study of the consular regulations of foreign countries. It is not easy to find a man who is familiar with foreign tariff regulations, who can read the languages of the various countries, and who can take the various documents with all their complicated official and technical terminology and translate them into understandable and usable English.

Complete information must be collected regarding shipping routes, rates and documents. Some one must be trained in the operations of financing the export order. The obtaining of credit information requires the best judgment that the manufacturer can command. Added to all these are the mechanical details of office accounting, recording systems, etc., as they apply to the new business.

The manufacturer must determine what kind of salesmen he will send to represent him in foreign countries, whether they are to be men with a knowledge of the language of the country, or whether they are to have primarily an intimate acquaintance with the specific business. He will do well to work out in his own plant

*Export Salesmen
and Service*

and in his own business a method of training export salesmen, because salesmen ready-made for foreign trade are not easily to be found. The manufacturer must consider whether his line is a simple one that can be handled readily by unskilled and untechnical salesmen, or whether it is one requiring expert attention. He must decide whether or not he will supply service with his product. If it is a machine or other mechanical product, he must decide whether or not he will send out mechanical experts and attach them to his agencies in foreign markets.

The manufacturer, especially if his product be complicated or technical, must study the patent laws of foreign countries. He must be prepared to go to the trouble of registering his trade-marks abroad. There are many pitfalls in connection with the patent regulations and trade-mark laws of foreign countries which he must be careful to avoid.

I might go on naming points which must be decided by the manufacturer who is planning to do business direct. I think perhaps that I have indicated enough of the necessary factors to stress the essential fact which is this: The manufacturer who expects to do business direct must be willing to go to the trouble not only of learning the business himself but of equipping his organization to do

all of the specialized business which in indirect exporting would be handled by a professional export house.

The decision of the manufacturer to do business through a commission house leaves him many problems yet to settle. The first is the one of choosing the export house. Incidentally he will have to decide here whether to deal through one commission house or several. Some commission houses do a big business in one part of the world and may do no business in other parts. In South America, for example, one commission house may do a very large business in machinery on the west coast and may do no business in machinery on the east coast, while another commission house, perhaps just around the corner, may be doing a very large business in machinery on the east coast and no business in machinery on the west coast. The manufacturer therefore must make a careful study of the various houses with a view to determine which of them are prepared to handle his particular products in given foreign markets. The manufacturer must then decide whether he will do business in a given market with one commission house only, or whether he will establish relations with several and let them compete for his business.

*Dealing Through
Commission Houses*

Some of the largest exporters in the United States sell through commission houses, and in certain markets maintain offices of their own as well—not so much for the purpose of making sales as for the purpose of helping the commission houses to make sales for them. A matter which the manufacturer must carefully take into consideration is the financial strength of the commission houses. In some parts of the world these houses finance many of the most important enterprises. One house may be backing a railroad development. Another may be backing some sugar plantation. Even in the same market different houses may absolutely hold in the hollow of their hands certain very large and important sections of the trade. This means that the manufacturer who intrusts his business in a certain field to a single house may thereby be effectively closing the door to certain other very rich markets in the same territory.

After the manufacturer has determined upon the particular export method or combination of methods to be used, and has selected his representatives, there remain many important problems to decide. One of the most important is whether or not he expects to support the efforts of his representatives. The manufacturer, very much as the manu-

*The Problem of
Exploiting a Product*

facturer in the United States who places agencies in various parts of the country, must decide whether or not he will advertise in the export markets with the idea of supporting the commission house.

There is another important and vital problem. The manufacturer should carefully consider whether or not he can get real sales service for a commission of $2\frac{1}{2}$ per cent., or even a commission of 5 per cent. It is very doubtful if any organization can give a manufacturer real sales service for that compensation. The average sales expense in the United States, I venture to say, is much larger than this. The manufacturer should appreciate the fact that the sales expense in foreign markets is likely to be greater than the sales expense at home. He can scarcely expect results to be obtained in a foreign market which cannot be obtained by his own organization in a domestic market.

Backing up the commission house by increased remuneration is but one of the ways of assisting the exploitation of a product. The manufacturer must also decide whether he is willing to advertise in foreign markets, to circularize foreign customers and prospects, or to send his own salesmen or demonstrators to the overseas field. All of these methods are used by manufacturers in stimulating sales through the export house.

Finally, the manufacturer must endeavor to discover whether or not way in the back of his head or down in his heart he expects to let the professional export concern build up a business for him, to break the ground, to blaze the trail, and then—after a profitable business has been developed—to take it away from the export house. Such a practise, or such an intention, on the part of the manufacturer is manifestly unfair. There is an attitude on the part of many of our manufacturers which refuses to take into consideration the fact that, with the exception of Europe, the major part of our export business has been handled and is likely to be handled by the professional export house. Up to the present time—and perhaps for many years to come—the professional exporter will be one of the most important factors, if not the most important factor in the development of our foreign trade. The manufacturer who wishes to play fast and loose with the export house would do well to consider these facts. It would be well for him to decide upon his selling policy only after full consideration has been given the facts just stated.

To a considerable extent the questions which have been raised with reference to backing up the export commission man in his efforts to develop a foreign market apply with equal

force to the decision which the manufacturer must make in using a manufacturer's export agent. The manufacturer must decide for

***Exploiting Through
Manufacturer's Agents***

himself the percentage of commission to be paid—the minimum amount of commission which will purchase for him real selling service in that particular market. He must determine also the amount of appropriation which he can allow the agent for advertising purposes. Such decisions can be reached only after a careful study of the markets.

It is of the utmost importance in determining the selling campaign for the manufacturer to consider the varying requirements of for-

***Foreign Campaign
Must Be Systematic***

foreign markets. The manufacturer who would wisely develop his foreign trade will scarcely expect to handle his Canadian market in exactly the same way in which he would handle his Chinese market, or his Indian market. A particular line of goods may be well-handled by a commission house in one part of the world and by direct selling in another, and perhaps in still a third it would be worth while to do business through a manufacturer's export agent. The manufacturer must decide what method of selling he is to make use of in a particular market.

A decision on this question brings in its train many additional knotty problems. The manufacturer is at once involved in the difficulty of protecting certain markets for his own exclusive agents. It is a practise among some export commission houses to refuse to give information as to the name of the customer, and occasionally even as to the destination of the order. The manufacturer must always protect his agents and it is therefore essential that he know the destination of his goods. A shipment ostensibly destined for India may be diverted by the export house to Argentina, where the manufacturer has an exclusive agency arrangement. Unwittingly the manufacturer may be cutting the market out from under his own representative or exclusive agent. The manufacturer should accordingly always require of his export representatives information as to the destination of the goods. In short, in order to work out a successful combination of methods he must have a thorough understanding with each of his representatives and each of his customers as to exactly how the business is to be transacted.

A knowledge of export advertising is also highly important. At the very outset of his export campaign the manufacturer should inform himself regarding the various publications and their value as mediums to assist him

in securing agency connections with responsible foreign houses, in developing a mail-order business or in stimulating export inquiries. He should study how advertising will benefit his salesmen, his branch houses abroad, his business through the commission houses and export merchants or through the manufacturer's agents he may employ.

*Advertising an
Adjunct to
Other Methods*

Then he must consider the advertising mediums. There are, first of all, the established export journals in the United States. Some of these cover the Latin-American field, while others cover the entire world through one or more editions. It is an easy matter to investigate the service of the leading publications of this class and decide how far their cooperation will be of benefit in the campaign. Then there are the periodicals published in foreign countries, and the other advertising mediums in use in some of them—such as signs on street cars and omnibuses, moving-pictures, posters and other outdoor signs. The use of these requires rather expert knowledge as to local values, and should usually be left to the foreign branch manager or the foreign agent. It should rarely be left to the discretion of an advertising agency, unless the manufacturer is convinced that the agency has made a thor-

ough study of export problems and is as well informed regarding them as he would expect his own export manager or his manufacturer's agent to be.

Some form of advertising is as necessary to the successful conduct of export trade as it is in the domestic field. The commission houses and export merchants do not and cannot *initiate* orders for any particular manufacturer. *How Export Orders Are Initiated*

Their business is primarily to sell to the foreign buyer whatever he wants. They are concerned with the articles, not the particular manufacturer who makes them. If the manufacturer of a safety-razor, a cook stove, a brand of flour or a line of pickles wishes foreign buyers to *specify* his particular product, he must advertise in mediums that will reach the ultimate consumer in the foreign land.

There are other problems. There are the problems of a direct-by-mail advertising circularization. There are the problems of translation. There are the problems of keeping informed of the developments in the foreign markets, and of the goods manufactured by competitors. These and many other points must be decided before the manufacturer sends his first salesman into the field, or before he establishes a single exclusive agency, or before he advances any business proposal to any professional export concern.

IV

A Definite Export Policy at Home

THE manufacturer who expects to be successful in export trade must have a definite export policy at home. This statement may seem anomalous, but as a matter of fact some of the most important decisions which the manufacturer will be called on to make must be determined in his home office and will concern his home organization, his home factory, his home methods.

The manufacturer must decide whether he is going to manufacture for export or whether he is going to export what he has manufactured. The difference between these apparently similar statements is the difference between success and failure.

*Manufacturing
for Export*

Recently a plow manufacturer sent a man to Argentina to ascertain what conditions prevailed there with respect to his line. The representative went out on the farms and actually worked in the fields. He found out exactly the kind of plow suitable to that particular market and to those peculiar soil conditions. He sent a cablegram at a cost of several hundred dollars instructing the manufacturer in detail as to changes that would



PLOWING IN LUZON



AMERICAN PLOW IN AUSTRALIA

**Local conditions often affect the type of agricultural implement used
in foreign countries.**



have to be made in order to meet the conditions in that country.

But the factory superintendent objected. "We can't make those changes," he told the manufacturer. "It would involve the alteration of all our manufacturing methods." Fortunately, the manufacturer knew his business and he knew his man. "I have confidence in the man I have sent to Argentina," he said to the superintendent, "and the plows for that market are to be made in his way. You will follow his instructions." The result was a large, profitable trade that is increasing year by year. This illustrates what is meant by a home export policy, and incidentally what is meant by the need of final executive direction.

Another manufacturer, at about the same time, without investigating and without adequate preparation, sent a consignment of plows to Venezuela. When the plows arrived the manufacturer learned that they could not be used. The reason was simple. Instead of horses, oxen were the beasts of burden in that country; in plowing, the implement was attached to the ox's horns. The manufacturer's plows had not been planned for that arrangement, and it proved utterly impossible to keep the plow in the soil when it was pulled at such an angle. The result of that little venture of unpreparedness was the loss to the manufac-

turer not only of the cost of the implements but also of the freight, duties and other incidentals.

*Standardization
and Large-Scale
Production* This is not to be misunderstood, however, as a plea that manufacturers sacrifice those economies which result from standardization or large-scale production. The very fact that the American manufacturer has a standardized product that he can produce on an immense scale may be his export salvation. This, in fact, is the great advantage that he has in competition with his rivals abroad.

Perhaps one of the most striking illustrations of this is to be found in the cotton goods trade. European cotton goods manufacturers, particularly the English, are prepared to produce short lengths of different patterns, different qualities and different types. They have developed their manufacturing methods in such a way that it is possible for them to compete with the American manufacturers, in fact to undersell them, in orders calling for short lengths and small quantities. But when cotton goods are wanted, not by hundreds of yards but by miles, American manufacturers say that they can compete and can undersell any other manufacturers in any markets in the world.

The same fact is illustrated by the success

of a popular automobile which competes with automobiles made in other countries. It is able to do so because a single type of car is turned out. There is no variation—not even in the color. It would be fruitless and irrelevant, therefore, for the agent of that automobile in Java to say that if it were painted red it would have a larger sale in Java. As a matter of fact, if the style of the automobile were varied even by so small a matter as a coat of paint, its cost might be disproportionately raised so that it could not compete at all.

Then there is the packing and shipping policy. Is the manufacturer ready to alter his packing system so as to follow instructions sent him by his customers or his export house? Is he prepared to adjust his shipping methods so that when the goods are wanted for shipment on such and such a steamer, they will be sent on such and such a steamer and will not be delayed for so much as an hour? The delay of an hour in shipping a consignment may result in missing the steamer and delaying the arrival at destination by a month or more.

We come next to a very important element in the making of an export policy. The manufacturer must adopt a definite procedure with relation to his export price. He must decide

whether it is be the same as his domestic price, greater than his domestic price, or lower than his domestic price. If he is dealing through an export house, he must be prepared to protect the house when quoting prices in the house's territory.

*The Price
Policy*

He must decide whether he will make the same prices to all inquirers in a foreign country however small or unknown they may be. If he is dealing with large importers in foreign markets, he must decide whether he will give to the small retailer or occasional inquirer the same price that he allows to the large importing house. If he has an exclusive agency, he must decide what price he will quote in reply to inquiries from smaller dealers in the agent's territory.

In this connection there is a fallacy, often characteristic of our discussions of foreign trade. It is that price is the most important element in getting export orders.

*Low Prices Not
Essential to
Export Success*

Price is an important element, but there are other elements just as important—for instance, quality.

American goods have made themselves popular around the world, not because they are low in price—for many of them are not—but because the buyer in foreign countries usually knows that when he gets American goods he gets quality. Our manufacturers have stood

solidly on this basis and have not altered their prices or the quality of their goods to meet foreign competitors' prices.

There are other important elements. Service is one of them. Price and quality often are comparatively unimportant without adequate service. If the American manufacturer develops in foreign markets the same kind of service that he gives in domestic markets, he is sure to win out. Price is therefore not the most important item in getting an export business, but only one of the important elements.

It is of prime importance, also, that the manufacturer decide whether he intends to "dump" his surplus production in foreign markets at prices lower than those he charges in domestic markets. If he does, he must realize that he has made the definite decision that he is not really going into foreign trade; that he has determined on a temporary price policy; and that—unless he is fully prepared to continue the definite policy of selling in foreign markets at a price lower than in domestic markets—he cannot do a permanent business abroad.

We must next consider the backbone of the whole export problem—the making of a credit policy. The manufacturer is face to face with the question whether or not he is willing to give credit to his foreign

*The Credit
Policy*

purchasers—if so, under what conditions; and if not, why not.

The manufacturer has at his disposal in financing his export shipment seven important methods:

1. Cash in New York, cash with order.
2. Cash against documents.
3. Sight draft.
4. Thirty days' sight.
5. Ninety days' sight.
6. Long time credits with interest.
7. Open account or open credit.

The manufacturer who expects to do a direct export business and does not expect to use the manufacturer's agent, the export merchant, or the export commission house, may at once discard the first four methods. Each manufacturer may as well get this fact clearly in mind now as at some time later, perhaps after bitter experience. The manufacturer cannot develop a direct export business and at the same time demand cash in New York, cash against documents, sight draft, or 30 days' sight. The usual terms for export business, outside of some European markets, are 90 days' sight, 120 days' sight, or even longer. Manufacturers must face the fact that if they intend to do a direct export business they must be prepared to finance their shipments at 90 days'

sight or longer. This statement does not mean that the manufacturer cannot do any export business on any other basis. It means that if the manufacturer wants his money in advance or in cash he must do business through a middleman.

One of the chief functions of the export houses, and the function which will probably develop increasingly during the next few years, is the financing of export shipments when the manufacturer desires or demands cash at the seaboard. Many export houses are prepared to finance shipments abroad when the manufacturer is unwilling or unable to do so. The manufacturer should recognize this fact when deciding on the methods which he will use to inaugurate his foreign trade campaign.

The manufacturer must decide, therefore, whether or not he will extend the usual and ordinary terms of credit in foreign markets, or whether he will demand cash in New York. If he chooses the latter course, he must be prepared to do business through a middleman. If he decides to do business direct and to give the usual credit terms, he must be prepared to establish a foreign credit department, to collect the necessary credit information, and to take the usual credit risks. He must be prepared to collect a considerable amount of

credit information himself at first hand and through his own personal representatives.

These are some of the facts which the manufacturer must consider in laying down that very vital policy with reference to credits. The manufacturer who has a weak or vacillating credit policy had better not attempt foreign business. He must have, as in his domestic trade, a certain definite and determined credit policy. If he has that he need not fear the problems that will arise.

V

Final Determining Factors

THE determining of an export policy rests in the main, not upon factors in foreign fields nor upon the various methods of exporting at the manufacturer's disposal, but rather upon factors inherent in the business itself. Therefore the complement of the foregoing survey of the export situation as it exists abroad and of the various export methods available is a careful survey of the business in which the manufacturer is engaged, of the product which he wishes to put on the export market, and of the organization which he has at hand.

The first and most important consideration to which the manufacturer should give heed is the nature of the commodity he desires to export. The product must be one that can be shipped without deterioration. It is a *Qualities Determining Exportability* prime essential for the manufacturer, producer or merchant intending to export a perishable commodity that he find out what markets are served by steamers having refrigeration facilities. This consideration limits the choice of his markets.

Again, is the product one that demands con-

stant and personal sales attention, or can it be sold after its initial introduction with comparatively little personal marketing? Ordinarily articles which require a considerable amount of specialized sales attention can best be exploited by the manufacturer's own representatives. An article which demands little expert sales attention can be sold through agents, commission houses, jobbers and local importers. It is doubtful whether such articles as cash registers, typewriters, sewing machines and the like can be satisfactorily handled through middlemen. Concerns that have successfully exploited these articles in foreign markets have almost universally used the direct selling methods and have established in foreign markets, not only their own salesmen, but their own branch offices.

Another question which comes up and which has to do essentially with the nature of the commodity is whether or not service is required. If service is required, as, for example, in certain electrical installations and certain large installations of machinery, it may be worth while to keep a technical expert on the ground. As a matter of fact, it may be necessary to have a man who is familiar with the mechanical details always at hand to repair breaks and to give expert advice and assistance. It is often impossible to make

sales in certain foreign markets unless such service is given.

Articles which must have technical attention and articles which are non-technical differ in the selling methods they require. In general, highly technical articles must be exploited by those who intimately know the article, and the more technical the character of the commodity, the greater is the amount of personal sales attention needed. The non-technical articles, such as cotton goods, carpets, boots and shoes, and other ordinary articles of merchandise can be sold without direct and expert selling attention. This again would affect the decision whether the manufacturer should be directly represented in the foreign market or whether he could be represented equally well through a middleman.

Finally, the manufacturer must determine whether or not the commodity is marketable in each of the various markets which he is considering. This involves a greater amount of study and more expert attention than might at first be supposed. Each market has its peculiarities, not only with reference to general facts, but with reference to each specific article. An article which may be marketable in China may not be marketable in India. An article which may be marketable in Germany, may not be marketable in Russia, and so on.

Another factor which the manufacturer must consider in determining his export policy is the volume of business. By this is meant

***Best Markets and Their
Consuming Capacity***

not only the present volume of business but also the potential volume. It is easy for the manufacturer who is alert, and who knows the sources of information, to ascertain the imports of his particular commodities into any given market. The statistics of all countries are not detailed and it is not always possible for the manufacturer to find an individual listing of the specific article in which he is interested. Usually, however, he can obtain through the statistics published by the United States or by other countries a general idea of the imports into any given market.

To determine whether or not there will be an adequate potential demand for his goods is a difficult and often impossible task. The manufacturer here must rely on every scrap of information obtainable. It is very important that he know what volume of business he may expect. It would be obviously unwise to establish a branch office in Argentina if the manufacturer did not feel that in that market he would be able to do business sufficient to pay the overhead expenses. If he were convinced that the volume of business would not be sufficient to warrant him in establishing a

branch office, he might then decide to do business through a commission house or through a manufacturer's agent.

It is also worth while for the manufacturer ambitious for export trade to consider his present business in relation to his plant capacity. It is absurd for any manufacturer or merchant to attempt to develop an export market if he cannot keep up with the requirements of the domestic trade. The manufacturer who is unwilling to expand his production to meet the wants of the domestic market had better not venture into the overseas trade.

The margin of profit is another item in determining an export policy. The margin of profit is variable. It depends not so much upon the manufacturer's or merchant's desire as upon competitive conditions. *Margin of Profit* There are certain classes of articles on which the margin of profit is large; such goods justify large selling costs. There are other articles, however, which are ordinarily marketed at a very small selling cost. In determining not only his selling policy, but also his price and credit policies, the manufacturer does well to ascertain what margin of profit is obtainable, not only in domestic markets but in foreign markets as well. He must cut his pattern to suit his cloth. If he finds that he has a wide margin of profit, he

may then be able to make greater expenditures in pushing his products, by better sales service or by longer credits. All of these matters depend to a considerable extent upon the margin of profit possible.

Capital is another item of paramount importance. If the manufacturer's capital is already well-employed, if he is unable to take

*The Amount of
Capital Available*

from his domestic business any of the funds which he is using there, and if he cannot obtain additional

capital with which to extend his business in foreign territories, he should hesitate about going into the foreign field. This does not mean that he must have enormous capital to exploit foreign fields, but the amount of capital which he has available to develop his foreign trade will determine to a large extent how extensive and active his business will be.

It is most important for the manufacturer to investigate his local banking facilities. He must determine for himself whether or not the local banks are prepared favorably to handle his foreign business. This does not refer merely to the collection of drafts and the various routine matters connected with the shipping of goods and the making of collections. It refers rather to the line of credit which the local bank is willing to extend him on his foreign business. If the local bank con-

siders his draft on foreign customers as a regular part of his line of credit, he is seriously handicapped. No up-to-date bank would take such a stand. It is to be regretted, however, that all banks are not modern in matters of international banking. The manufacturer will find that in many communities he is forced to include his foreign draft in his regular line of credit. He should take these matters into consideration at the beginning and they should determine to a considerable extent his credit and his price policy.

Perhaps even more important than the other points which have been made is this final point. The manufacturer must determine whether or not he has in his establishment and in his organization the business brains with which to develop an export trade.

After all, in every organization, it is the men who make it up that count most. It is reported that Mr. Andrew Carnegie once said, "Take away my business, burn my plant, scrap my machinery, but leave me one thing, my organization, and I will rebuild my business within five years greater than before." The man, the manufacturer, the merchant, who has the trained men, who has the business brains in his organization with which to build up a new enterprise, may look

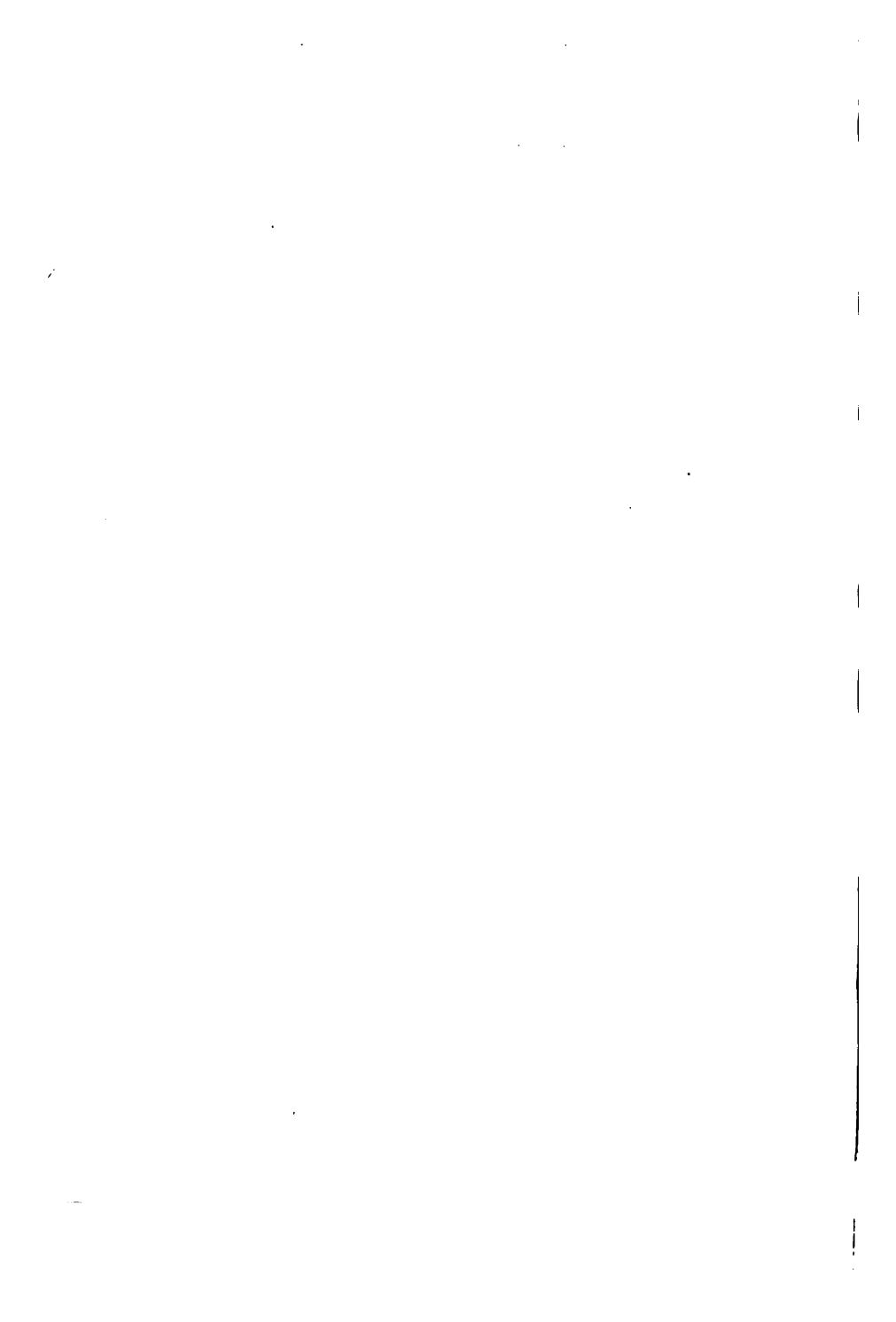
*Brains and
Organization Needed*

forward without apprehension to the development of a foreign business. But the man who has an inefficient organization, whose men are not trained—no matter how big his capital, no matter how marketable his article, no matter how sincere his desire to get foreign trade may be—that man had better not attempt the venture.

The preliminary survey, let me urge again, is absolutely essential. It should precede any efforts to get foreign trade. This preliminary survey should consider, first, the manufacturer's situation; second, the foreign market; and third, the possible methods of connecting the two. It is impossible to say that direct exporting is better than indirect exporting. It is impossible to say that the manufacturer should fix the price of his goods for export according to domestic prices, or that that price should be higher or lower than in the domestic market. Whether a manufacturer should establish a separate company to handle his export business or whether he should conduct it through an export department under a subordinate executive—these are matters which cannot be settled in the abstract. They can be decided only in the concrete—with a detailed and accurate knowledge of the situation in the case of each individual manufacturer.

*The Preliminary
Survey*

When all of these matters have received consideration, when the manufacturer has reviewed the available methods of exporting, when he has studied the prospective markets and has considered his own product with reference to these markets, when he has a bird's-eye view of his own situation, and knows exactly what he is able or willing to do, then, and then only, is he prepared to formulate an export policy.



Part II
EXPORT POLICIES
EMPLOYED IN CERTAIN LINES

I

How Foodstuffs Are Exported

THE remainder of this Unit of the Course will be devoted to a study of the application in certain selected lines of the policies which have been previously outlined. In general, the export industries to be considered fall into two classes: first, those handling foodstuffs and raw materials; second, those handling certain manufactured articles.

Deserving of first attention is wheat, the "king of cereals," more universally used and more widely grown than any other foodstuff. No staple of world commerce is so closely watched in international markets. The area planted, the condition of the crop and the result of the harvest are carefully noted in the leading trade centers of every civilized country. The foremost exporting countries are the United States, Argentina and Russia. France, Canada and India are also important centers of production.

In order to understand clearly the manner in which wheat is exported, it is necessary to trace the staple from the farm where it is raised to the foreign miller to whom it is ultimately delivered. It is first brought by wagons, or by motor-trucks and trailers, to

the nearest local market or concentration point, where elevators have been erected to hold it in storage. These are called country elevators and are owned for the most part by the great elevator companies at the primary markets. There are 36 such companies at Minneapolis, for example, owning 1,862 country elevators. Many, however, are owned by local grain dealers and an increasing number in some states are owned by the farmers themselves.

*How Wheat Is
Assembled, Graded
and Transported*

From these country assembling centers the grain next goes to the primary markets, of which ten of the largest are Chicago, Minneapolis, Duluth-Superior, St. Louis, Buffalo, Milwaukee, Kansas City, Peoria, Cincinnati and Detroit. In these cities are huge terminal elevators, frequently of two or three million tons capacity each, where the grain can be taken from cars or vessels and reloaded with almost incredible speed. Just before its arrival at the terminals the grain is inspected and weighed by state officials and the cars sealed. The inspectors at some primary markets are followed by samplers who represent commission houses on the local board of trade, but grain is now sold largely by grade—25 or 30 grades being quoted at Chicago and New York. As soon as the samples and

grades of a day's arrivals are at the disposal of the board of trade the trading begins and by one o'clock usually all has been sold.

From the primary markets grain destined for export is presently started toward the seaboard—by rail, canal boat, or by whale-back steamers through the Great Lakes. It has been said that western wheat runs down hill all the way to the sea—which is true in a sense, since competition of water routes has done much to reduce transportation charges in the last 25 years.

Most of the grain for export is handled by export grain agents or brokers. When they have an order from foreign millers or distributors for a certain quantity of grain, the brokers arrange for space on a suitable steamer

*How Wheat Is
Brought to Seaboard*

at the best available port, and then see that the grain is brought from the primary collection center to the seaboard in time to meet the steamer. For his part in the transaction the broker usually receives a commission of $\frac{1}{8}$ of 1 per cent., the rate being low because he assumes no risk, other than storage charges at the seaboard elevator if his ship is late.

To avoid ruinous rate-cutting by the railroads, a differential agreement has been in existence, in one form or another, since 1869. Under its terms, and to offset natural disad-

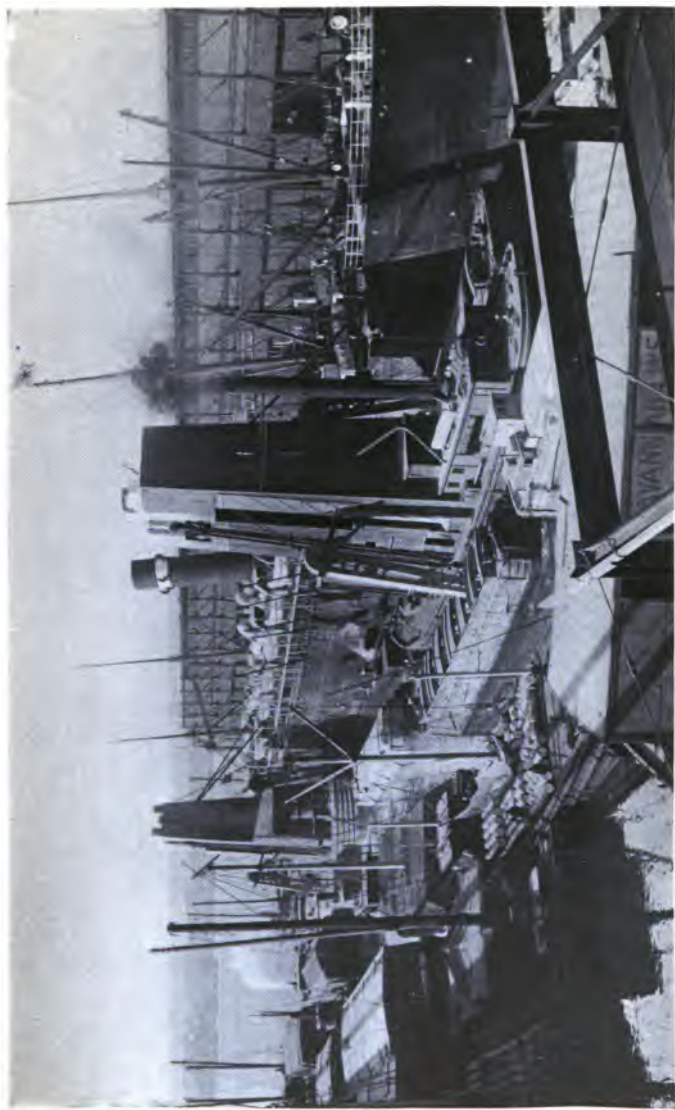
vantages, the rates from the interior to the seaboard over certain roads are lower than those on others. Thus the all-rail rates to New York are higher than those to other ports. This differential and the fact that shipping facilities for grain are not so good at New York as at several other ports have caused a steady decline in the percentage of the wheat exports moving to that city.

In normal times the passenger liners and regular freight steamers that load wheat for export from New York are unwilling to leave

*Methods of Loading
and Shipping*

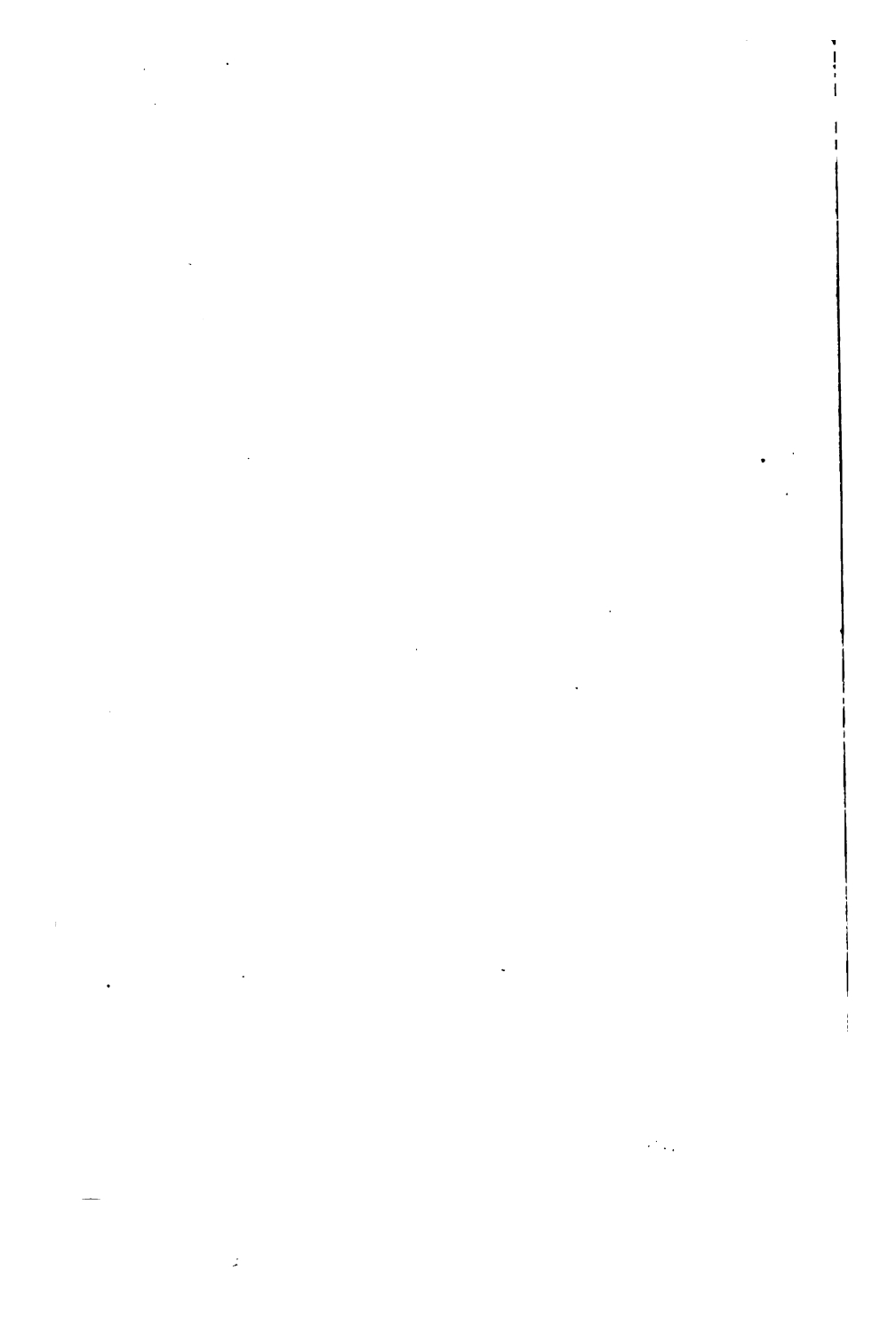
their berths to go alongside the railroad elevators. Floating elevators, of which there are about a dozen in the harbor, are employed to transfer the grain from the railroad terminals to the steamers—a picturesque feature of the harbor traffic.

When the export tonnage is heavy a veritable fleet of sailing vessels and tramp steamers assembles at the wheat-shipping ports—especially those on the Pacific Coast, where sailing vessels are still able to compete on account of the length of the voyage and the fact that speed is not essential. All of the wheat shipped via the eastern seaboard, including Canadian and Gulf ports, is carried in bulk, but on the Pacific Coast it is bagged for the most part. Bagging is also the system employed in



GRAIN ELEVATORS IN NEW YORK HARBOR

Employed to transfer grain from the railroad terminals to the outgoing steamers.



Argentina, Russia, Australia and many other wheat-exporting countries, but it must eventually give way to the elevator system. Already a number of elevators have been erected in Argentina, and plans have been made for introducing this method on an extensive scale in Australia.

While the wheat export is largely determined by such factors as world demand and ocean freight rates, the flour trade is handled by the various methods outlined in the preceding chapters. Most of the mills export direct, or through commission houses or export merchants. Some of those exporting direct employ traveling salesmen—a method that is proving increasingly successful in this line, especially in the Caribbean region. The trade in Trinidad and other islands, where business conditions are stable and local merchants are responsible, is occasionally transacted on open account—bills rendered being paid by return steamer. For Haiti, the Dominican Republic and other countries where credit conditions would not warrant direct trading, the mills usually sell to export merchants or commission houses having their own connections or branch houses.

*The Export
of Flour*

About a third of the flour coming to the seaboard is inspected, the standards varying at different ports. The mills as a rule welcome

inspection since it enables them to investigate complaints more readily. Flour is very sensitive to odors and to various deteriorating influences—bilge water on the freight-carrier, for example, is likely to affect it. If the inspection shows that the flour was in good condition when shipped, it is evident that the deterioration occurred on shipboard or after arrival at the port of destination. High-grade flour stands the bad effects of tropical climates better than the lower grades, since it consists only of the hard inner kernel of the wheat.

The large Latin-American trade in flour from the United States is handled for the most part by export merchants having extensive connections in South and Central America and the West Indies, and by commission merchants who represent the principal native distributors. In general North American flour can be sold only as far southward as northern Brazil on the east coast and Peru on the west coast, cheaper freights favoring Argentine and Chilean mills beyond those limits. Throughout these countries the firms importing food-stuffs are among the largest in every community, so that this trade is in strong and experienced hands.

*Principal
Flour Markets*

The United Kingdom and the Netherlands are the best European markets for flour, Cuba

and Brazil the best in Latin-America, while in Asia the largest buyers are in Hongkong and Japan. Some years ago it was thought that China would become an enormous consumer of Pacific Coast flour, but the development of wheat-growing in Manchuria and of flour-milling in China and Japan have restricted this market and it has not proved as profitable as was expected.

Exports of other cereals in their natural state, while considerable in the aggregate, are not especially important. Corn is exported each year to the value of several million dollars, but much of the huge crop is used for feeding cattle and hogs. There is a moderate export trade in oatmeal and prepared cereals, but these have not as yet won any large foreign popularity. The eating of a cereal for breakfast is not so prevalent abroad as it is here. A number of years ago the Department of Agriculture sent abroad a special advocate of corn as a foodstuff. He was called "Corn Bread Murphy," and proved very successful for a time in winning public consideration for his claims. The habits of many generations, however, proved too strong to be overcome and the attempt failed of its main purpose—to create a permanent export demand for this cereal. These package goods are now sold chiefly through export agents

*Other
Cereals*

who have found, or developed, a local demand for them. Great Britain and the leading English-speaking colonies are the best markets for prepared foods.

Exports of meat products and of live cattle to be slaughtered abroad amount in the aggregate to a vast sum annually—more than \$125,-

*How Meat Products
Are Exported*

000,000 in 1914. Practically all of this trade is handled by the great western packing-houses which have applied to their export business the same careful study and thorough methods that have made their development of the by-products of this industry famous. The packing-houses have been investing heavily in Argentina in recent years, and are now shipping frozen beef from that country to Europe, where it is handled through the same connections that formerly handled American beef coming in on the hoof.

Export methods in this line are a judicious mixture of those previously described. In certain markets some of the packing-houses have branches and depots for the more rapid delivery of their goods. Several such depots are maintained in the West Indies. Salesmen are also employed in many markets, even in Europe, where they look after the requirements of customers, report on credits and in many ways help to keep the business

running smoothly. Local agencies are extensively used, being usually large importers and distributors of groceries and provisions, and firms of considerable responsibility. Credit information regarding these customers is secured by the export departments of the packing-houses with the same care and thoroughness that distinguish the conduct of their domestic business. On account of the perishable nature of the products the customary terms of credit are short, usually sight drafts accompanying shipping documents, or 10 or 15 days after sight. Great care is exercised that the documents and the goods go on the same steamer, and especially that the documents do not arrive ahead of the goods. In exceptional instances, or for the sake of accommodation, 30 days' credit is allowed. Goods are put up and packed to comply exactly with the requirements of each market, one country calling for lard in 4-pound tins, another in 5-pound, and so on. All goods are especially packed for shipment to tropical countries, and in cases adapted to transportation by mule-back, when desired. The wishes of customers are consulted on these and many other points, and the utmost care is exercised to see that goods made up for one market are not shipped to another.

Commission houses and export merchants are supplied with all the goods they require, but under no circumstances are goods sold unless the destination of the shipment is positively known. This precaution is held to be in the interest of the exporter, the commission merchant and the consumer alike and the business is refused if information on this point is withheld. Chicago and New York banks finance this business along modern lines and, in general, it may be said that this branch of our export trade is very efficiently handled.

*Success in the
Export of Fruits*

In the fruit trade American exporters and shippers have scored complete success. The apple trade, for example, is in strong and experienced hands and leaves little to be desired either in methods employed or results achieved. In many parts of New England and other apple-growing sections representatives of the exporters buy the fruit on the trees, pick, pack and ship it themselves, and thus see that it starts on its long journey in perfect condition. This trade now amounts to from from \$5,000,000 to \$8,000,000 annually. Europe and Canada being our best customers. It is handled principally through special export houses dealing directly with wholesale distributors in the foreign markets. In the western apple regions the fruit is shipped under the supervision of apple

growers' associations. The completion of the Panama Canal should result in increasing our total exports by bringing some of the fine fruit of the Pacific Coast into the European markets.

Exports of oranges are about half those of apples in value, and might be greatly increased by careful attention to the possibilities of European markets. This has been done in the case of the banana trade—American and British companies having developed a considerable demand, especially in Great Britain.

The volume of the world's trade in canned goods has been estimated as more than \$150,000,000 annually. Of this total the share of the United States is less than \$20,000,000, notwithstanding the fact that we are the largest producers of nearly every foodstuff that is ordinarily prepared for market in this way. Our principal exports at present are canned salmon, nearly \$8,000,000, and canned and preserved fruits, \$5,000,000. There are great possibilities for the further extension of the export trade in canned fruits. They require only to be properly introduced to win a strong foothold, as the heavy English trade in canned pineapples shows.

The trade is handled by the large importers of groceries and provisions and the methods described as being followed by the packing-

houses would apply to this line. Care must be exercised in preparing shipping documents. For example, "peaches in syrup" and "peaches in natural juice," bear different rates of duty in Argentina. Attention must also be given to the wishes of the foreign buyers as to packing and shipping.

In general, taking foodstuffs as a whole, it may be said that the export trade in crude articles like wheat and the other cereals in their natural state depends largely upon international supply and demand. The methods outlined at some length in describing the wheat trade apply to most of such staples. For manufactured foodstuffs the prevailing export methods are: (1) Foreign agencies, usually the wholesale importers and distributors of groceries and provisions; (2) Foreign branch offices and warehouses—especially in selling the packing-house products; and (3) Traveling salesmen, to a limited extent.

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II

How Raw Materials Are Exported

THE greatest single item in the export trade of the United States is raw cotton, of which the shipments abroad in the fiscal year ending June 30, 1914, amounted to \$610,475,301—more than a fourth of the entire exports of the country. This huge trade is conducted by methods that have been gradually developed during the course of more than a century.

In 1790 the Southern States produced less than 3,000 bales of cotton. Then Eli Whitney invented the cotton gin for separating the seeds from the lint—and the reign of King Cotton began. Without interruption from that day to this—save for the period of the Civil War, and a few months after the outbreak of the present war in Europe when ocean shipping was paralyzed—the United States has dominated the cotton markets of the world. The staple is successfully grown on a commercial scale in Egypt, in British India and in Russia, but efforts to promote its cultivation in the British colonies of Africa and in other parts of the world have as yet resulted in adding only insignificant quantities to the world's visible supply.

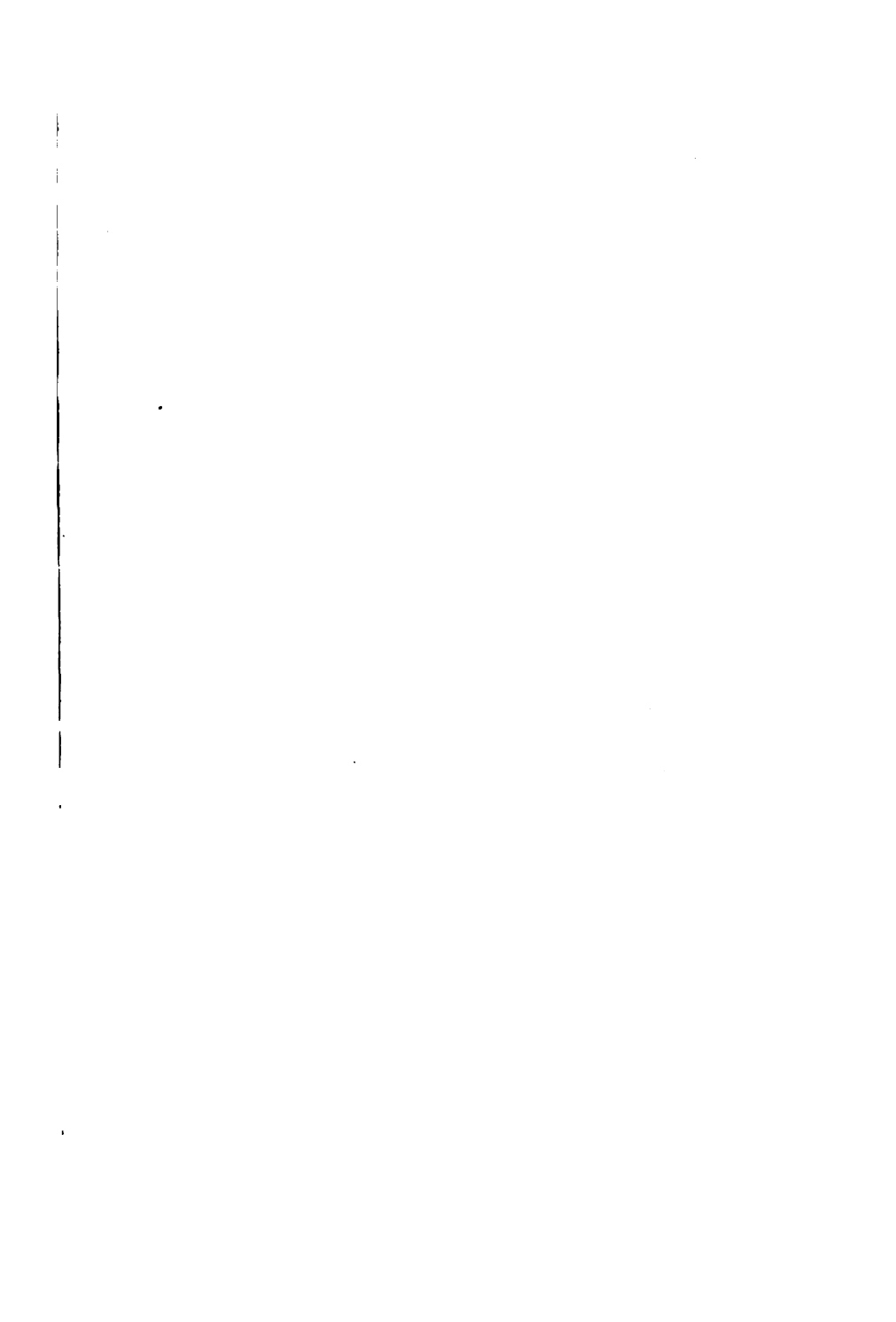
*How the Growing
Cotton Crop Is
Watched*

As in the case of wheat, described in the preceding chapter, the cotton crop is watched by expert eyes at every stage of its progress from seed-time to harvest. The total number of bales received for ginning, on hand at shipping points, or in course of transportation "ashore or afloat" is carefully recorded. The slightest fluctuation in the prices quoted on any important exchange is instantly flashed to hundreds of trading centers.

While the cotton plant is growing the United States Department of Agriculture reports at monthly intervals regarding the condition of the crop. This information is supplemented by thousands of private advices, the largest buyers sending men to travel through the cotton belt during the growing season to report at once regarding any factor that is likely to affect seriously the size or quality of the crop in any district.

*American Cotton-
Baling Methods
Inefficient*

As the staple is brought into the nearest collection centers from each growing district—usually in mule-drawn open wagons—it is first taken to the ginnery, where the seeds are removed and the lint pressed into the clumsy oblong bales that are so familiar a sight in every seaport and mill town. The spinners of every nation have long





LOADING COTTON AT SAVANNAH

American methods of packing result in millions of dollars loss every year.

complained of the method of baling usually practised in this country—but thus far without any substantial result. John M. Carson, in a report to the Bureau of Manufactures in the Department of Commerce (Special Agents' Series No. 58), has described in detail the wasteful features of the present methods of packing, estimating that the practice of pulling samples from the bales alone results in a direct loss to the growers of over \$4,000,000 annually, while the cutting of the coverings means a loss during the course of shipment to the ultimate consumer of many millions more.

The round bale overcomes most of the objections to the present system of packing, but its general adoption has been retarded by various influences. That shippers can pack better when compelled to do so, however, is evident from the fact that Japanese mills insist upon the shipping marks for that trade being printed upon white material, placed in position at the time of compression and held by the bands, and this condition is systematically complied with. This cotton is said to reach its destination with the marks undisturbed, whereas cotton destined for Europe often arrives with all marks torn off—resulting in many disputes. On the other hand, those in the trade assert that the present system of pulling samples is absolutely necessary for the proper conduct of the business.

Wide diversity in condition, color, length and fineness of staple and other characteristics of the cotton are responsible for many variations in quality. More than 21 grades have been officially agreed upon by the various exchanges and traders.

In the cotton-growing regions there are large numbers of local buyers, some small, others operating on a considerable scale. These usually purchase the staple direct from the growers, after sampling each bale and determining its grade. Next come the intermediate buyers, who operate over several counties or even entire states. Behind these stand the export or spinner buyers, who represent the mills, foreign and domestic. The various exchanges, of which those at New York, New Orleans and Liverpool are the most important, fix the prices for the various grades day by day. They also quote the prices on advance deliveries, or "futures" for several months ahead. It is on the basis of these daily quotations that each day's purchases are made—"spot" prices being for cotton actually on hand for immediate delivery.

*The Three Classes
of Cotton Buyers*

As in the case of wheat, ocean freight rates are a factor of great importance in the cotton trade. However, the European mills must have the staple sooner or later, and while high

rates may delay they seldom prevent export shipments.

Buying for export is not essentially different from domestic mill buying, save for certain technical variations in terms for the different markets. In general, cotton is sold to the domestic trade on gross weight and for export on net weight, the latter usually being calculated on the *landing weight*. The commonest export terms are "C. I. F. and 6%"—which means that the seller agrees to pay the incidental expenses and cost of loading the cotton on board ship, to insure it against marine disaster, to pay the freight from shipping point to destination, and allow a reduction of 6 per cent. from the gross or invoice weight. There are, however, many modifications of these terms.

*Terms on Which
Cotton Is Exported*

Leather is another American export of commanding importance to manufacturers abroad. As leather is itself a manufactured product, it comes more within the scope of the principles laid down in the first five chapters of this book than does raw cotton. The export trade is large in the aggregate, and American leather finds its way into nearly every part of the commercial world.

*How Leather
Exports to Europe
Are Handled*

The export methods vary according to the

market. For the United Kingdom and the continent of Europe the trade is handled largely through leather factors at London and the principal importing centers. To them the American manufacturers ship direct. These factors in turn supply the boot and shoe manufacturers and other users in their respective countries. They keep in close touch with conditions in the American hide and leather market. They buy on various terms, from clean drafts—that is, without shipping documents attached—to 120 days. Many of them have bankers' credits and authorize the American manufacturer to draw on the London & Westminster Bank, the Crédit Lyonnais and other equally well-known banks.

In sharp contrast with this business, which resembles domestic trade in the solidity of the firms which conduct it, is the trade with Latin-American countries. In these markets the bulk of the leather business is handled by the export commission merchants, to whom the manufacturers sell on the usual terms of cash against shipping documents, the commission house securing the lowest export prices and attending to all details of shipping, marine insurance and collection of bills. In Brazil and some other South American countries the manufacture of footwear is increasing rap-

*Leather Trade
with Latin-America*

idly; but even here the commission houses have such wide connections that they can take care of this business more efficiently than the manufacturers can by operating direct. The commission houses, moreover, import considerable quantities of Latin-American hides; they constantly have credit balances in favor of those markets and are able to draw against the balances in settling export shipments of leather. Accordingly, the manufacturers are content to deal through the commission merchants and to protect in every way those middlemen in the export leather trade.

In the lumber trade—another raw material line in which the United States is an important source of the world's supplies—a similar situation exists. Here the

London factor is the dominant figure, not only for the United Kingdom, but for the

*Lumber Trade with
Europe Controlled
by London*

continent of Europe as well. As a rule, lumbermen do not care, or are not prepared, to extend long credits in their export business. This gives the London factor his opportunity. He finances the business, buying for cash against shipping documents, and in turn passing the consignments along to wholesale distributors at the principal importing points. The great lumber yards at Antwerp and Rotterdam, for example, are owned by Antwerp

and Rotterdam merchants, respectively, but draw their supplies through the London factors. The latter get $2\frac{1}{2}$ per cent. commission, plus all expenses, including postage. A single German house at Frankfort formerly imported direct; but practically all other European business is handled through London—English capital even financing a number of the leading southern lumber exporting companies of this country.

In the Latin-American trade the lumber exporters usually prefer to sell to the commission houses and to protect the latter in every way. The trade with Argentina, which is very large, is conducted almost entirely in this way, except

*Latin-American
Lumber Trade through
Commission Houses*

for the shipments made by a single export merchant. Some direct business is done with the West Indies, especially Cuba and Trinidad. Terms, in this trade, are cash against shipping documents.

One of the largest shippers to Argentina employs sailing vessels almost exclusively. His customers prefer this method since the sailing vessel unloads slowly, thus giving the consignees time to distribute the cargo to river boats and barges for transportation to scattered customers. Again, it is found that the steamers, which discharge cargo rapidly, are

likely to damage lumber more than the sailing boats with their slower crews. At the same time small steamers of about 4,500 tons capacity are increasingly popular in this trade—or were before the European war. The shortage in tonnage caused by the war led to the chartering of a sailing vessel of 291 tons for Argentina—probably the smallest mercantile vessel to make so long a voyage in recent years. Usually lumber is shipped in full cargo lots on chartered vessels; so ocean freight rates are a great factor in this trade. The war has caused rates to advance to a degree that in some instances means trebling the cost of the lumber at the port of destination. In other words, freight costs are equal to twice the value of the cargo.

*Importance of
Charter Boats in
Lumber Trade*

Different markets require different grades in the lumber, as in all other lines. The Latin-American buyers take the cheaper lumber, using it largely for buildings to be covered with galvanized iron. Europe takes finer qualities, France and Belgium buying the best of all. In sizes, lengths and thicknesses each market has its own requirements. These are rigidly adhered to.

During the five years prior to the outbreak of the European war approximately 50 per cent. of the copper turned out by American

refineries was exported, some of it for metallurgical treatment. Copper is the fourth largest item in our export trade.

The copper trade is largely operated through brokers on the metal exchanges in the United States and other countries. It is a cash

*How Copper Exports
Are Handled*

article, and is handled at a small percentage of profit by the middlemen, but it is big scale business and runs quickly into large sums. The manufactured articles, such as sheets, rods, bars and wire, are generally sold through jobbers.

Modern commerce and industry are slaves to coal. The annual aggregate of coal consumed by the navies and vessels engaged in the international trade is estimated at about 75,000,000 tons. Great Britain supplies for ships' bunkers about 21,000,000 tons a year, and the United States 8,000,000 tons. Large quantities are exported, especially from England, to coaling stations scattered over the world.

In 1912 the United States ranked third in the value of coal exported, exclusive of bunker coal for ships. Germany's exports were \$130,000,000, just double those of this country, and those of the United Kingdom were \$250,000,000.

Because of the relation between the freight

rate and the selling price, only coals of excellent physical character and of high heating value are available for export. Coals of the best physical character with a small percentage of infusible ash require little skill

*Factors That Influence
the Export of Coal*

to be made to yield a high percentage of the potential heating value, while it takes added skill and superior equipment to produce efficient results with inferior coals. American producers can supply coals suitable for any kind of service.

The product is sold by analysis, and computed on an "as received," "moisture free," or "dry coal" basis. It is marketed directly through foreign branch offices or foreign agencies, usually on the basis of hundreds or thousands of tons, or on annual contracts. It is less often sold through the medium of commission houses or of traveling salesmen. The standards of value, as shown by analysis, are definitely fixed and, quality being equal, the freight rate is the greatest determining element in meeting competition.

Crude petroleum and petroleum products, including benzine, gasoline, illuminating oils, lubricating oils, residuum, fuel oils, paraffin wax and medicinal preparations, have attained a place of great importance in international commerce and now form more than 3 per cent.

of the total normal exports of the United States.

How Petroleum Is Shipped From the inland wells to the seaboard refineries the crude oil is pumped 500 to 2,000 miles through a system of pipe lines. The greater part of the oil for export is refined and then shipped, either in huge tank steamers or in cases—two five-gallon cans in each wooden case—to practically every country of the earth. When shipped in tank steamers, the oil is stored in tanks at the port of destination and is filled into five-gallon cans or into tank wagons as it is needed. The cans are manufactured in that case on the oil company's own foreign installation. This procedure results not only in a saving in freight charges, but also in lower import duties and handling charges. Lubricating oil is usually shipped in barrels.

Economies in the Petroleum Trade In the petroleum business "the profits are in its economies," to quote a proverb of the Standard Oil Company. In the export trade of that company the cost of distribution—including the cost of transportation and marketing—is the vital factor affecting the price. Costs per unit are worked out to hundredths of a cent, not only as regards the ocean freight, but as regards leakage in transit, warehouse rentals, office expenses, agents' commissions—in short,

every expense that the oil incurs in its journey from the American pier to the hand of the foreign consumer. The best sort of wooden cases, the correct amount of solder on the joints of the tin can, the proper shape of handle, were also decided in the same painstaking manner.

Trade is stimulated in hundreds of different ways. To create a demand in China a cheap lamp was devised. It popularized the use of illuminating oil in that country. Oil stoves and heaters are sold by Standard Oil offices in foreign countries as they are in the United States. So careful are the methods employed that the market value of the empty can is regularly reported, and taken into consideration in planning a competitive campaign.

The crude oil is bought as it flows from the wells and is paid for in cash at a price that is established at some central point. The refined oil is usually sold through branch offices or through companies and agents directly connected with the home office. In many foreign countries the marketing is supervised by young Americans who have undergone several months of training in the oil company's offices and refineries in the United States. Each office is responsible for increasing the trade in its respective territory and is kept supplied with an adequate supply of the brands of oils required in its market.

The selling in the respective territories is usually done through native agents who receive a fixed commission per unit of ten American gallons. The business is cash from well to consumer.

So successful have these methods been that the Dutch-Shell Company—representing English and Dutch interests, owning extensive holdings in America, as well as in the Dutch East Indies, and now the greatest competitor of the American concerns—has followed exactly the same development policies.

III

The Export of Steel Products

THERE are three main points of information that a manufacturer interested in the exporting of steel will want to know: First, what methods the successful American steel-maker employs in securing orders in competition with his British, Belgian and German rivals; second, having filled the order, when and how he collects the amount of his invoice; and third, how he arranges to deliver the steel overseas to its destination.

These three questions may be answered in a concrete case. The government of Chile is about to build a railroad. Several thousand tons of steel rails, many car-loads of spikes, bolts, nuts and rivets, and perhaps steel ties, will be needed. Water may have to be brought across the desert through a steel pipe. Telegraph and telephone systems, requiring miles of steel and copper wire, must be installed. Bridges, terminals, harbor docks and repair shops, all calling for large quantities of structural steel shapes, must be built. The railway company will probably expect the successful steel-maker to submit designs for the bridges

*How Big Steel
Orders Are Secured*

and other structures and to erect them complete by a certain time; payment will be made only after the completion of the contract.

Obviously, this is a problem demanding not only technical skill of the highest grade, but financial resources large enough to finance a several million dollar contract for at least a year.

Let us consider the methods which are being followed in securing just such orders as this by the largest American steel exporter, the United States Steel Products Company, which is the export branch of the United States Steel Corporation.

This company maintains its own sales offices in Valparaiso and Santiago, the industrial center and the capital, respectively, of Chile. Competent engineers, trained in the company's steel works, are in charge. Coordinated with these sales offices are huge warehouses in Valparaiso, Santiago and Talcahuano, completely stocked with such steel products as are required in Chile. When the steel company's representative calls upon the railway company, one of his strongest talking-points will be the existence of these warehouses, for notwithstanding the fact that the bulk of the steel must be manufactured to special requirements, it will be of inestimable advantage to have a stock nearby which can

be drawn upon in case of delay or other emergency.

Before quoting prices, the steel company will probably enlist the cooperation of some large and well-established Chilean importing house with strong connections in the United States, and the bids will be submitted, not in the name of the steel-maker, but in the name of the local importing house.

*How Import House
Assists in Financing*

The reason for this is apparent when we answer our second question: When and how does the American steel-maker obtain payment for his steel?

The customer will not pay for the rails and other supplies until they have been delivered at the dock in Chile. He will not pay for the steel structures until they have been erected complete and accepted by the railway's own engineers. But the steel company's rule, with rare exception, is cash in New York before shipment.

Here the local importing house proves indispensable. It usually is as much banker as merchant, and through its correspondent, or perhaps its parent house in New York, it pays the steel company cash against shipping documents when the steel is delivered to the steamer. For thus relieving the steel-maker of any financial risk in the transaction, the

importing house receives a commission; or, more likely, the steel company has named the import house special prices, enabling it to quote its own prices and its own terms of payment to the railroad, and thereby to make its own profit on the transaction.

The importance of this cooperation will be evident when we know that the Chilean government has been obliged to borrow money to construct its railroad. The steel company is not in the banking business, and, consequently, before any orders for steel can be given out, some banking house must agree to buy the government's bonds. This the strong South American import houses are usually prepared to do—or at least to arrange.

However, securing railroad contracts in Chile is not generally so simple a matter. We have assumed what is not often the case—that the money to construct the railroad has been furnished by an American house. The fact in most cases is that the capital has been supplied by British or German firms; in which event we may rest assured that the banker has stipulated that all important contracts for materials and equipment shall be placed with his countrymen. In other words, unless the capital be supplied by Americans, the efforts of the American steel company to secure orders will in most cases be fruitless.

From this it follows that if the American steel manufacturer expects to do a large and profitable export trade, he must keep in close touch with the sources of capital and be willing to cooperate with American banks in finding safe investments in foreign lands for their funds.

Now, although the steel company has arranged to be paid for its steel in New York before shipment, its responsibility is not at an end. As we have seen, it is a part of the contract that the steel shall *How Delivery Is Made* be delivered in Chile by a certain date. So the steel manufacturer must provide for the transportation of his steel in such a way as to make its delivery certain. As the steel will be shipped in lots of several thousand tons at a time, in all probability he will have to charter steamers specially. In the case of the United States Steel Products Company, the maintenance of large stocks of steel at various points in South America gives it a large and steady freight tonnage, and enables it to operate a fleet of steamships between the east coast of North America and the east and west coasts of South America. This detail of the export business is handled separately, and the steel company's steamship line quotes rates to and from South America in competition with other lines, the steel-maker's customer usually

paying the freight on arrival of the shipment at destination.

It must be evident, however, that ability to insure delivery of its steel in any foreign land, regardless of outside circumstances, has been an important element in building up a steady and profitable export trade for the United States Steel Products Company.

So far, we have been speaking of what may be termed "contract business." There is a large and important "jobbing trade" in all steel-consuming districts. By this we mean the supplying of products which are in regular and steady demand. In South

*"Stock" Products
Marketed from
Warehouses*

Africa, Australia and Argentina, barbed wire and woven wire fencing are carried in stock; in Chile and Peru, there is an enormous "stock" business in galvanized steel sheets for roofing, and in all developing industrial centers there is a large demand for steel bars to be worked into various articles by local blacksmiths and machine shops; for steel beams, channels and plates for the shipyards and boiler factories; pipes and fittings for the local plumbing trade; horse-shoes, nails, bolts, nuts, rivets and numerous other steel articles.

Wherever practicable, the steel company carries these products in stock and endeavors to fill as many orders as possible from its nearest export warehouse.

In the distribution of these "stock" products, cooperation with the local merchants is again the guiding principle. In general, it may be said that the steel company's sales representative does not seek orders directly from the consumers, but prefers to sell to the merchants for cash, leaving them free to name their own prices and terms of payment.

In centers where the demand is not large enough to justify the steel company in maintaining its own salaried representative and a stock of steel, it usually gives its agency to some established local importer or engineering firm. In return for the agent's agreement to sell only the steel company's products, the latter binds itself to sell its steel in that territory through none but the agent. His compensation may be a commission on the amount of his sales when the invoices are paid, or more likely he will have a fixed scale of prices, enabling him to name prices competing with European steel. In either case the American manufacturer will expect the agent to pay for the steel before shipment is made, or at the very least, to honor his draft attached to the shipping documents upon arrival of the steamer carrying the steel. In this case, collection of the draft is made through the foreign correspondent of the steel-maker's New York bank. If the terms of payment are cash

*Smaller
Agencies*

against documents in New York, the agent will have his own bank arrange with a New York correspondent to honor the steel company's draft, and shipment of the steel must be arranged by the agent.

European standards and specifications for steel differ from American. Whenever possible, the American steel exporter tries to have his foreign customer accept a standard American product, such as he is rolling every day for his domestic trade, and in many cases he succeeds. This is particularly true of specialties such as barbed wire, woven wire fencing, galvanized roofing. But whenever the quantity ordered is large enough to justify it, the successful American steel exporter is always willing to make the steel in accordance with foreign specifications. All large American steel mills are accustomed to roll steel to millimeter measurements as well as to English inches, and standard European shapes of railroad rails can be procured as quickly here as standard American sections.

Price, rather than quality, is often a determining factor with the purchaser in many foreign markets. Galvanized corrugated iron, for example, is in steady demand in Mexico and Central and South America. The size of sheets and the thickness are generally reckoned to the same standards of dimension and

gauge that prevail in the United States, but the American product costs more to produce and sells at a correspondingly higher price than that of Germany or England. European galvanized corrugated iron, because the galvanizing is thinner, is lower-priced at the point of shipment than the American. Naturally it will last only about half as long, but the merchant who is buying for stock in 10- or 20-ton lots, is concerned more with meeting his customer's wishes than he is in educating him as to the durability of the product.

*Price vs. Quality
in Winning
Export Markets*

Moreover, the merchant is accustomed to receive long terms of credit from some European commission houses. The lower first cost, with 6 per cent. interest added, with the privilege of paying in six months or a year, enables him to turn over his stocks of galvanized corrugated iron three or four times before his first bill has to be paid. In such cases—which are fortunately not the rule—there is little for the American manufacturer to do but to carry on, in whatever way may best suit the particular market, a campaign of education and to continue to prove that, in the long run, his product is the cheapest, even if its first cost is greater and its terms are cash.

This, generally speaking, has been success-

fully accomplished in several lines. Wire rope of English manufacture ranks with American in durability, and is slightly lower in price; yet the American product is more and more frequently preferred in foreign markets in the Western Hemisphere because of certain points of technical excellence. Wire rope is used by men who are skilled judges. No chances can be taken in hoisting in mines, on derricks and in other places where it is employed. The American product has proved itself to be worth more than any other. Therefore it is demanded by the purchaser who calls for a certain trade-mark with which he is familiar, although he may not know the maker's name.

Wrought iron pipe is still another product that has made its way successfully in foreign markets in the face of cheaper competition. While European wrought iron pipe can be had, when specified, with American standard threads, it is more likely than not, to be scant in weight for its diameter, and it may come in "random" lengths which will require more couplings and more work to connect. The difference in appearance between a carload of European pipe of this sort and a carload of American tubes is not soon forgotten by anyone who has seen the two products side by side.

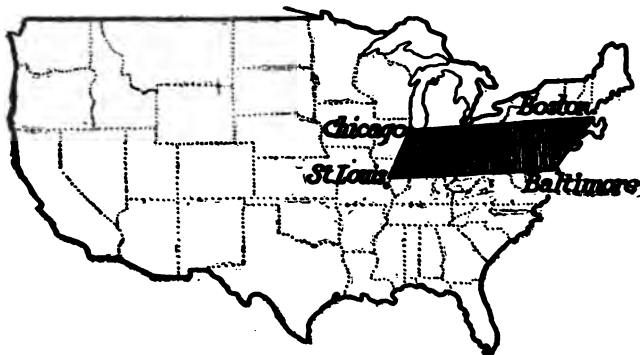
IV

Exporting American Machinery

THE United States is singularly well-qualified to produce machinery for foreign buyers. We have raw materials in abundance and skilled labor drawn from the best industrial stocks of Europe; and in the marvelous development of our own country we have met and solved so many mechanical problems that our machines embody skilful design and adaptability to hard conditions. Equally important is the fact of our tremendous domestic market enabling us to manufacture in quantity and thus secure low cost on many articles. The rational system of interchangeable parts is an outgrowth of large-scale production.

*Why United States
Is Well-Fitted to
Make Machinery*

The principal manufacturing region of the United States—for machinery and other lines—is the territory within the quadrilateral formed by a line joining Chicago, Boston, Baltimore and St. Louis. Industries in this region have ready access to raw material—iron, coal, lumber, etc.; they have a large labor supply and first-class facilities for rail and water transportation. Chicago, Detroit, Cincinnati, Pittsburgh, Philadelphia, Providence and Newark are important machinery centers.



The Industrial Quadrilateral

As a result of these advantages, the manufacture of machinery for foreign buyers has so grown that the value of our exports in this line approached one-quarter of a billion dollars in 1914—one-third of our total of manufactures ready for consumption.

Our machinery exports may logically be divided into three great groups as follows:

EXPORTS OF MACHINERY, 1914

Group	Approximate Value	Per Cent.
I. Agricultural Implements	\$32,000,000	14
II. Vehicles and Transportation Machinery	57,000,000	26
III. Engines (stationary and marine) and Factory Machinery	135,000,000	60
Total	<u>\$224,000,000</u>	

No part of our foreign trade in machinery has been more successful than that of the first

group—farm implements. The business is of large volume and long standing, and is thoroughly organized. The report of the International Harvester Corporation in 1911, for example, showed that 40 per cent. of its total business was foreign. *Striking Success in Farm Machinery Trade*

The American farm implement is a result of the settlement of the Middle West. Land was cheap 50 years ago. A farmer from New York or New England immigrating into the prairie states could not get help enough to work his large land areas by the old time-consuming methods. An era of invention followed and the result is the modern farm implement, in its many varieties, time-saving and money-saving and constantly improving in response to the demand of a developing agriculture.

Farm implements—such as mowers, reapers, threshers and plows—are bulky and freight rates are high; hence most of the factories are situated in the middle and western parts of the parallelogram, near the farms. Raw material and labor conditions are so well adjusted here that, in spite of the growing export business, there seems little likelihood that plants will be built at seaboard.

In covering the world "wherever grasses and small grains grow," it is reasonable that

the implement export business should find it necessary to use several forms of middlemen.

By far the greater part of the overseas trade is

*Direct and Indirect
Methods in Exporting
Farm Implements*

conducted by means of export departments at the plants, working through branch houses abroad, or

firms in the various foreign countries. The largest concern in the trade maintains its own offices in the port cities to attend to its shipping problems; concerns with a small volume of business employ responsible shipping firms.

The organization of the International Harvester Company is of especial interest, since because of its magnitude it embodies all the various systems of selling. In four foreign countries it has organized companies which not only sell but also, to some extent, manufacture. In another country a factory is operated and the selling directed by a branch of the home company. These foreign factories do not as yet manufacture either a complete line or in sufficient volume to care for their local business. Heavy importations from the American plants are necessary. In still another part of the world this American concern has found it wise to use an export commission house, because the latter is so firmly established in the territory.

Credit terms in the export implement trade depend entirely on the relations established between buyer and seller. When the American house is dealing direct with agents in foreign countries drafts at 60 to 90 days are usual. Unknown firms pay cash F.O.B.

*Credit and Price
Policies of Leading
Manufacturers*

New York. A leading concern publishes no price-list, but makes a price to each dealer, including interest on the time the accepted draft is to run. The dealers make resale prices subject to competition in their territory. In the important item of spare parts close supervision is exercised by the American manufacturers. A farmer, having bought an implement, must have spare parts of that particular make. Some dealers attempting to take advantage of the farmer's situation have been summarily dealt with by the manufacturers.

Canada, Russia and Argentina are the greatest absorbing markets for implements. Competition is principally German and British. American manufacturers believe that their implements are lighter and more adaptable than the British, and better made than the German. Those who have had experience do not approve of the policy of some German firms to grant long credits indiscriminately. Manufacturers are not money-lenders.

Advertising makes use of the local mediums

in the various countries as well as posters, catalogs and other printed matter.

We may justly be proud of the success of that typically American product, the farm implement, abroad. Firms contemplating exporting will do well to consider and study the organization of the export business as carried on by the leading implement houses. Trained salesmanship under American leadership, branch houses in direct contact with the trade, efficient propaganda and service, the adaptation of machines to local conditions where needed—these are the factors which have brought success. The successful firms have made this business not “foreign” trade, but usual trade—an extension, as it should be, of sales territory.

The history of the export trade in the second group, Vehicles and Transportation Machinery, contains many examples of the inventiveness and business ability of the American manufacturer in competition with his foreign rivals. The principal items in this section of the machinery trade are carriages and wagons, automobiles, locomotives, railway cars and traction engines.

The manufacture of carriages and wagons is closely related to the implement trade since to a large degree both serve the same customers. American carriages and farm wagons

have been developed to combine strength with lightness, in order to give the best service on poor roads in a new country. The United States produces some valuable woods—second-growth hickory, oak, poplar, ash—admirably adapted for use in the construction of wagons. *American Carriages and Wagons Adapted to New Countries*

This industry is largely confined to the same region as the implement industry. Many of the great centers, as South Bend, Moline and Chicago, are identical for both industries. Other centers are influenced by the lumber supply, as Cincinnati (the greatest), Owensboro and St. Louis.

The principal export markets for American wagons have been the countries that have physical conditions similar to our own—Canada, Argentina, Australia and South Africa. The volume of the foreign trade is much less than that in implements—while the domestic output is greater. In many older countries there exists a strong prejudice for the locally made vehicle, which is hard to overcome. Wagons reach the foreign market in somewhat the same way as implements, especially when implement manufacturers control wagon factories. More attention and care would undoubtedly develop this business.

The manufacture of American automo-

biles is typical of those industries which produce in great quantity for a vast domestic market. By standardization, by interchangeability of parts and by the adoption of every possible labor-saving method, the prices have been brought so low as to make the product accessible to the great middle class which formerly regarded the motor car as an expensive luxury.

*Automobile Trade
Aided by
Standardization*

The automobile is analogous to the horse-drawn vehicle in construction, except that it is much more complex in mechanism and built largely of metal. Many carriage builders have taken up the manufacture of motor-cars. The geographical location of the industry is along the northern edge of our manufacturing quadrilateral west from Buffalo to Detroit and Indianapolis.

American automobiles have been exported for a number of years, but until the great war in Europe the export trade was only subsidiary and no especial technique had been developed in handling the business. The war brought many men from non-belligerent foreign countries seeking agencies. Today, for example, there is scarcely an American car without an Australian agency.

One large firm which exported 10 per cent. of its output in 1915 has now covered the

world with selling arrangements, using partly local firms, partly export commission houses. Terms are cash F.O.B. New York at present. The tendency is to work directly with the small local dealers, and progressive manufacturers look forward to the granting of more liberal credit terms after the war and the use of accepted drafts dated according to the customer's credit standing. Great interest is being taken by American automobile manufacturers in the proper organization and manning of their export departments.

The popular car for export is that priced between \$500 and \$1,000. Its advantages are its cheapness, accessibility, simplicity and ease of operation. The electric starting and lighting system, now universally in use, is an American feature. The American automobile engine has not been built for such high fuel economy as the European, since gasoline is cheaper in the United States than abroad. There are indications of a change in construction, however, several American companies having adopted the European engine design this season. Motor trucks made in the United States have been well-advertised by their successful use in the European war. Their sale abroad should constantly increase.

As to advertising, automobile manufacturers consider that as soon as they have found

agents and established connections in foreign countries the usefulness of the so-called export journals is ended, since these mediums do

Advertising American Automobiles Abroad not reach the consumer. One of the principal exporting manufacturers says that the

bulk of his advertising is done through local newspapers or periodicals issued at the points where he desires to establish his trade. Each of his dealers is under contract to do a certain amount of advertising. The dealers' catalogs are published in the principal business languages, but none of them contain prices, since the average buyer sometimes fails to understand why the laid-down cost in the foreign countries so far exceeds the list price in the catalog. "Practically all of the advertising done here in America," says this manufacturer, "is found suitable for foreign countries, though of course our advertisements are toned down for foreign publication and a great deal of the 'live wire' matter removed."

Foreign trade in locomotives makes an honorable chapter in American export history.

Long-Established Trade in Locomotives The Baldwin Locomotive Works, the oldest of existing American locomotive factories, was established in 1832. The great Schenectady plant of the American Locomotive Company was built in 1848 as the Sche-

nectady Locomotive Works. The first locomotives exported were sent to Cuba in 1838 by the Baldwin Locomotive Works. It is interesting that in 1840 the same works shipped locomotives to Austria and to England, and in 1845 to Wurttemberg in Germany.

Locomotive-building is concentrated in the eastern part of the United States. The State of Pennsylvania produces about half the total output; the State of New York, about a quarter. The early establishment of the two leading factories has already been indicated; and it has never been found necessary to change location, since the labor market is satisfactory, as are also transportation facilities and accessibility to coal, iron and steel.

A locomotive represents a considerable investment of money, and locomotive contracts are therefore dealt with differently from those for ordinary machinery. When agents are employed, it is the custom to choose concerns which are resident banking or commercial houses and which have influence with the governments and railroads in their territories. In most countries the work of the agency is supported by a resident expert from the engineering staff of the locomotive-builder. Manufacturers have their own offices in large centers, such as London, Paris and Havana. In many cases locomotives are sold to railway organi-

zations which are of sufficient magnitude to warrant direct dealings. One builder reports that all sales are made net except in cases where certain middlemen have a selling agreement for a restricted territory. Such indirect sales, however, form but a small proportion of the total export business.

American locomotives have been sold in almost every railroad country. They may be found in service in such scattered regions as Manchuria, Siberia, Brazil, Hawaii and the Dutch East Indies. The principal markets have been Central and South America, China, Japan and Russia. One locomotive export manager considers the best future markets to be Central and South America and China, with fair possibilities in South Africa, very considerable possibilities for immediate requirements in Russia and for replacements in Europe following the war.

Owing to the unusual character of the business and the large sums of money involved, the financing is rather different from ordinary staple export trade. Almost all methods of financing orders are used by the locomotive manufacturers, according to the situation. One shipment may be made cash against documents in New York; another one cash against delivery and erection; and still another

*How Locomotive Sales
Are Financed*

on the basis of partial payments as the construction proceeds, the last payment to be completed within a year after delivery and erection. The great difficulty in securing freight space at the present time has forced builders to make F.A.S. (free alongside ship) sales, but in normal times C.I.F. (cost, insurance, freight) prices were quoted. Where big orders were in prospect and the standing of government railroads known, builders have even accepted government short-term, interest-bearing notes in part payment. In financing the sale of small locomotives for plantations in countries where one staple crop a year is sold, such as coffee or sugar, the financing has generally been managed for the purchaser by a well-established commission house. As a rule, credit of customers is well-known and it is not necessary to demand bank credits.

Locomotives of American design are particularly suitable for new countries where the grades are steep, with sharp curves and uneven tracks. Adequate repair facilities are generally lacking in such countries, and it is important to have a machine that will do the work with the minimum of repairs. The American method of building to gauges and templates makes it possible to obtain duplicate parts promptly. The same system has enabled our builders to furnish very quick delivery.

In considering the probable future of American export business in this very important item, we should ponder the words of an experienced builder and exporter, Mr. Alba B. Johnson, president of the Baldwin Locomotive Works: "I believe that the future outlook for the development of the sale of American locomotives abroad depends largely upon the investment of American capital in foreign government loans and foreign railroad enterprises. The conditions of competition are yearly growing more difficult, and the financial and diplomatic pressure away from American manufacturers grows keener. This can only be offset by the extension of American financial interests and by cooperation between bankers and manufacturers to require that American money loaned for investment in foreign enterprises shall, as far as possible, be expended in America."

*Foreign Investments and
the Locomotive Trade*

The remarks which have been made about the export sale of locomotives will apply also to the foreign trade in railway cars. It may be said, however, that while many large orders have been placed in America before as well as during the war, there has been in the car-building industry scarcely the same organized export effort as is in the locomotive industry. The American type of railway car is undoubt-

edly well-adapted to countries with conditions similar to those in our own. In highly developed industrial countries, such as Great Britain and Germany, different types of freight and passenger cars are used, the tendency being toward many small units. Curiously enough the automatic coupler has never been adopted in Europe; the technical experts have pointed out the enormous expenditure which this device would entail and the necessity for an international agreement on the continent of Europe, since in normal times the railway cars of one country cross the borders and are handled by the railways of another country.

A large and growing business in American traction engines has been under way for a number of years. The indications are that this business will increase. The French Industrial Commission which visited the United States in November, 1915, made a special study of this question through one of its members. Statistics of the Department of Commerce list steam and gasoline driven tractors separately, enabling the student to observe the decline of the steam tractor and the great growth of the "gas" tractor within the last three years. These machines are generally regarded as a part of the implement trade, and

*"Gas" Traction
Engines Replace
Steam-Driven*

are handled in essentially the same way as agricultural implements.

Our third general division concerns itself with stationary engines and machines. This subdivision is composed of a great variety of machines, and constitutes 60 per cent. of the total machinery exported.

Although very much is yet to be done and in some lines the field is but "scratched," the fact should not be ignored that a number of American manufacturers have been doing, some of them for as long as 15 years, a considerable export business. In this trade they have gained experience and developed a considerable technique. There are three prevailing methods of handling this machinery abroad: (1) Through foreign companies organized by the manufacturer under the laws of the countries in which they operate (these companies sometimes manufacture as well as sell the goods); (2) Through branch offices with warehouses; (3) through carefully chosen machinery dealers who act as middlemen, generally working in exclusive territories. Most successful American concerns that have taken care in the selection of foreign agents have no hesitancy in granting these agents suitable credit terms, such as the 90-day acceptance.

The export figures of the Department of Commerce show that the export business in

steam engines has declined while that in internal combustion engines—those propelled by gasoline, heavier oils or alcohol—has increased. American steam engines have always been recognized as substantial, but in recent years German and other European builders have perhaps paid more attention to the matter of fuel economy. As a result of this specialization, the industrial countries of Europe do not offer so large a market to the American steam-engine. Its field is rather in less-developed and colonial countries.

*Steam vs. Internal
Combustion
Stationary Engines*

Gasoline and oil engines in small and medium powers are now manufactured at many points within our industrial quadrilateral, particularly in connection with the manufacture of agricultural implements. In the early years of the industry manufacturers sent gasoline engines abroad. When it was found that the price of gasoline in some foreign countries was prohibitive, the manufacturers wishing to hold their foreign trade were obliged to build engines running on heavier oils. This forced the adoption of the so-called Diesel or semi-Diesel engine; and now, with the cost of gasoline rising in this country, a valuable domestic market has arisen for this machine which was primarily

designed to satisfy a foreign want. No better proof could be had for the statement that foreign trade reacts beneficially on domestic trade.

American internal combustion engines are notable for substantial and rugged design, accessibility and the ability to work under difficult conditions. There is a world-wide market for this type of machinery, especially in the small and medium sizes, for farm, factory, fishing boat and other uses.

American manufacturers have successfully sold pumps and air-compressors abroad against sharp European competition, the selling argument being based on efficient

*Pumps and
Refrigerating
Machinery*

construction and quick delivery. One manufacturer has an English company with headquarters in Lon-

don, a German company with headquarters in Dusseldorf, agencies in Paris, Rio de Janeiro, Madrid and other centers. American refrigerating machinery has readily found buyers abroad. This line has been carefully developed and meets conditions very well. At the present time it is being actively pushed in all parts of the world.

In machine tools, the manufacturers of the United States are admittedly the world's leaders. A machine tool might be defined as a machine to manufacture other machines. The

great markets are the industrial countries where machine-building is a broadly developed industry. America has led in standardization in the development of interchangeable parts and in quantity production. The vast home market has been a stimulating factor in the machine-tool industry. European nations have not been slow to see the advantages and there have been tremendous importations of American machine tools into Great Britain, Germany, France, Switzerland and the minor industrial countries of Europe.

*Our Preeminence in
Making Machine
Tools*

The great volume of the export business is done through carefully selected foreign agents in exclusive territory; their commissions average 10 per cent. Some manufacturers place a maximum limit on the price which the foreign agent may demand. It would probably be safe to say that a large percentage of the machine-tool business is handled on the basis of sight draft against documents in New York; but many substantial European firms buy on open account or accepted drafts at 30 to 60 days. In the smaller tools, such as pneumatic hand tools for boiler shops and shipyards, one American concern has established British and German companies to handle its business and has also a Canadian company. The war in

Europe has given the machine-tool business a tremendous impetus. While this business may lapse considerably at the close of the war, the opportunity thus presented American makers to introduce their goods abroad should not be neglected.

Another large item of export is electrical machinery, such as dynamos, motors, transformers. European competition in this line has been difficult to meet and the policy that has been most successful is not to attempt to sell an American dynamo against a European dynamo, but to make the sale include an entire outfit, combining engine, dynamo and accessories. There is no question

*Electrical, Mining and
Sugar Machinery*

as to the quality and construction of American electrical apparatus. For mining machinery, including machinery for the shaft and for the mill and smelter, the markets are obviously those parts of the world where mining operations are being carried on. Dealings are, however, with the mine owners, generally located in big centers, such as London and New York.

At our very doors, in Central and South America, lies a tremendous market for sugar machinery which we have not sufficiently worked, due in some cases to lack of proper representation.

Other American lines which have attracted world-wide attention have been laundry machinery, printing-presses and windmills. There is about all of these the element of the specialty, the cleverly designed article for a specific purpose, and here price is not the last argument. Conditions in American industrial life have forced machine labor, and this is responsible for the efficiency of our laundry machines. As foreign countries approach our own in conditions, there is of course an ever-increasing market for laundry machines. The city of Buenos Aires, for example, offers tremendous possibilities for American steam laundries. Two American concerns manufacturing laundry machinery have English companies and regular representatives in several countries. However, none of this business has been properly pushed with aggressive sales methods such as prevail in the United States.

I wish to acknowledge the courtesy of the following firms who kindly furnished much of the information used in this chapter: International Harvester Corporation, Thomas B. Jeffery Company, Willys-Overland, Incorporated, Baldwin Locomotive Works, American Locomotive Sales Corporation, Fairbanks-Morse Company, Chicago Pneumatic Tool Company, Whitcomb Blaisdell Machine Tool Company, Hendey Machine Company, Cincinnati Milling Machine Company, *Mining World* (magazine).

The valuable reference to the location of our machine industries within the American industrial quadrilateral is from the excellent work of Prof. J. Russell Smith, "Industrial and Commercial Geography."

W. C. H.

V.

The Exporting of Textiles

COTTON, raw and manufactured, is the biggest item in the ocean-borne traffic of the world. The international trade in manufactures of cotton alone now aggregates, in normal times, \$1,200,000,000 a year. Of this vast total the United Kingdom supplies more than one-half, Germany more than a tenth, France over a sixteenth and the United States—the chief cotton-growing nation of the world—less than a twentieth!

The cotton goods exports of these four nations in the normal trade year of 1913 are indicated by the following table:

EXPORTS OF MANUFACTURES OF COTTON, 1913

United Kingdom,	\$619,051,990	More than three-fourths of this trade was cloth, and about one-eighth yarn.
Germany,	\$136,761,200	Approximately one-third cloth, one-third knit goods, and the remainder embroidery, lace, braid, yarn.
France,	\$75,275,600	Less than one-half cloth, the remainder lace, ribbons, tape, knit goods.
United States,	\$53,743,977	More than half cloth, the remainder principally wearing apparel and cotton waste.

Smaller exporters of cotton goods are Switzerland, Japan, India, Italy, Austria-Hungary, Holland, Belgium, Russia and Spain.

The largest importer of manufactures of cotton is India, with China second.

American cotton manufacturers do practically no exporting direct. The actual exporting is usually done by (1) export departments of mill commission houses, (2) export brokers, (3) export commission houses, (4) local agencies of foreign importers. *Export Methods in Our Chief Markets*

The mill commission house frequently sells direct to foreign merchants, filling their orders at the mills. The export brokers act as buyers for foreign importers, usually buying from the mill commission houses, occasionally from the mills direct. Their buying commission varies from 2 to 5 per cent., $3\frac{1}{2}$ per cent. being the usual fee. The export commission houses may buy from the mill commission houses but generally their orders are through cloth brokers; the cloth brokers receive $\frac{1}{2}$ of 1 per cent. commission from the house with which they place the order. The number of foreign importers maintaining their own buying branches in the United States is small compared with the number in England. Usually they buy from the mill commission houses.

Trade with Canada is treated by mills in the United States as domestic and the business is usually handled on domestic terms: either 2 per cent., ten days, 60 days dating (that is, 2 per cent. discount for remittance in 70 days) or else on seasonable terms—for Fall goods 2 per cent., ten days, November 1 dating (that is 2 per cent. discount for remittance within ten days after November 1) and for Spring goods 2 per cent., ten days, April 1 dating, open account. Trade with Cuba, Porto Rico and (in normal times) Mexico is also handled by most mills as domestic. The commission houses cover the leading buying centers of these countries very much as they do in similar centers of the United States; they send out traveling salesmen; and they sell to the foreign buyers who make periodical visits to New York. A few Canadian and other houses have their own buying offices in that city.

The South American trade is served in various ways. The west coast trade is mainly in the hands of two New York export commission houses. They have their own steamship lines, operate branch houses in those markets, and are able to extend credit to good customers. One of these houses has a branch in Buenos Aires in addition to its branches on the west coast. Other sections of the continent are

*Handling Latin-
American Trade*

reached through various export commission houses, through export brokers, and to a limited degree through purchasing agents of South American firms who come to the United States to buy. Exporters shipping direct to importers in South America have largely demanded cash in New York; recently there has been a tendency to liberalize these practises, and now a credit of from 30 to 90 days after sight is not uncommon.

The Central American trade is largely handled through export brokers. Their credit methods vary. In some transactions cash is required before shipment, in others remittance is to be made on receipt of the goods, and in others 30 to 60 days time is allowed.

The China trade is unique in that it is handled almost entirely by a few large export commission houses, five of these being American, two English and two German, all having offices in both New York and Shanghai.

The Chinese wholesalers place orders with the Shanghai branches and pay them cash on delivery of the goods. If in any case the whole of the order is not required immediately, the Shanghai branch will have the goods stored in a "godown" and delivered as needed. As deliveries are made

*Selling to
China*

the Chinese purchaser make his payments, covering the purchase price and accrued charges, including interest.

Under this arrangement, the New York house draws a four months' sight draft on the Shanghai house and gets its money by discounting this paper with New York banks. The Chinese buyer pays the Shanghai firm $1\frac{1}{2}$ per cent. commission for its services as middleman, and meets the interest on the draft, bank charges, freight, insurance, duty, and cable costs.

New York export and commission houses maintain branches in Manila, and through these the cotton cloth trade of the Philippine Islands is largely conducted. These branches are able to extend a limited amount of credit.

In shipping cotton cloth to Turkey, American commission houses usually demand cash before shipment. Some of this business is done through agents at Smyrna or other points, who are allowed a small commission—usually 2 per cent. In Aden there are three branches and one resident agent of New York cotton goods exporters, and these have their own special arrangements, but the European or native importers are usually required to pay cash before shipment.

In East Africa two American export commission houses have branches. Direct im-

porters there are required to pay cash in New York. In South Africa the American cotton goods trade is largely through resident agents who are paid rather high commissions, ranging from 5 to 10 per cent. *The African Trade* Some of this trade is direct and a fair proportion is handled through London firms.

Methods of selling cotton cloth to the United Kingdom vary among American exporters. Some deal exclusively with large importers who buy outright, usually for cash on delivery. Others employ the offices of sales agents and pay them 3 to 5 per cent. commission on sales. The British agent is accustomed to the time-honored European practise of payment of cable tolls and postage charges by the exporters, but American exporters usually allow a slightly higher commission and require the agent to pay his own expenses.

Few cotton mills of any country export direct, and the mills of the United Kingdom are no exception. Export methods in the United Kingdom are as varied as those of the United States. It is important that American exporters know these methods by which the largest cotton goods export trade of the world is handled.

Less than 5 per cent. of this British trade, which in normal years totals more than \$600,000,000, represents direct exports from the

mills. The little direct exporting that does exist is mainly to nearby continental markets and to British colonies. As a rule, the manufacturer does not concern himself with the problems of distribution, but in both foreign and domestic trade sells through cloth brokers—to the “cotton merchant” (corresponding to the American jobber) in the home trade, and to the “shipper (corresponding to the American export commission house) in the export trade.

British Export Methods

Apart from the small item of direct exporting by the mills, the actual work of selling abroad is mainly in the hand of three groups of middlemen: (1) shippers, (2) export merchants, (3) resident buyers of foreign importers.

The shippers are by far the biggest factors in this trade. Resident buyers of foreign importers rank next in importance, according to the volume of trade. A feature of the British trade is the great number of foreign importers who maintain their own buying houses in London and Manchester. These include many firms on the Continent, in the Levant, in India and a few in America.

The usual intermediary between the manufacturer and the exporting middleman is the cloth broker—though some mills sell direct to the exporter. The cloth broker’s compensa-

tion is a selling commission, usually 1 per cent., plus an additional $\frac{1}{2}$ of 1 per cent. if the sale is guaranteed. These commissions are paid by the mill. The ruling conditions of payment to the mills are "Manchester terms"— $2\frac{1}{2}$ per cent. discount for cash in 14 days, or "London terms"— $2\frac{1}{2}$ per cent. for payment on the tenth of the month for all goods delivered up to the twentieth of the preceding month. Sometimes $3\frac{3}{4}$ per cent. discount is allowed for prompt cash after the delivery of the goods. In recent years there has been a tendency to allow longer time; some houses are known to grant three months' credit with the $2\frac{1}{2}$ per cent. discount. In some cases, even when the purchases are nominally on Manchester or London terms, the buying house arranges with the mill to forward-date the shipment so that an extra month's credit may be obtained over and above the regular allowance. These terms concern the exporter buying of the mill.

The terms which British exporters grant to buyers in foreign markets vary widely, ranging all the way from cash before shipment to open credit. In extending time the British exporter is guided by his branch houses in the foreign markets. They are generally in a position to give him specific credit information and ad-

*British Terms to
Foreign Buyers*

vise regularly of the foreign importer's standing.

A large part of the business handled by the shippers (exporters) is on indents (buying orders) sent in by their branch houses which have secured these orders direct from the native wholesalers. The terms differ with the markets. In the China trade the shipper usually charges the Chinese firm 1 per cent. for buying gray and white goods and $1\frac{1}{2}$ for buying colored goods. He draws on his branch house at four months after delivery of the shipping documents in China, and his branch representative collects from the Chinese customer cash on receipt of goods together with interest at the rate of 6 per cent. per annum and all expenses.

If the order comes from a Turkish merchant who wants prints of a certain kind, to be packed in a certain specified manner, the shipper will buy the gray cloth from one mill, arrange to have it printed, and then arrange to have it made up and packed by another establishment. In rendering his bill, he will show the cost of the goods and include separate items for the extra services rendered, charging also for freight, other expenses and a buying commission of $2\frac{1}{2}$ to 3 per cent. He will ship the goods and extend credit as long as four months, with interest from the date of invoice

at the rate of 5 per cent. per annum, allowing a cash discount of 2 to 3 per cent.

These two examples are given to illustrate concretely the methods employed. The details vary considerably; perhaps there are no two markets just alike in the terms allowed; but it may be said that in general the bulk of the business is transacted on terms of not over 90 days with interest charged from date of invoice.

Several striking differences are made manifest by a comparison of the cotton goods industry of the United States with that of its commercial rivals—chiefly Great Britain. In the United States the mills are scattered over a broad territory, and the majority of the mills spin their own yarn. In the United Kingdom the cotton mills are concentrated within a small area and the industry is highly specialized; most of the cloth mills buy the yarn from separate spinning-mills.

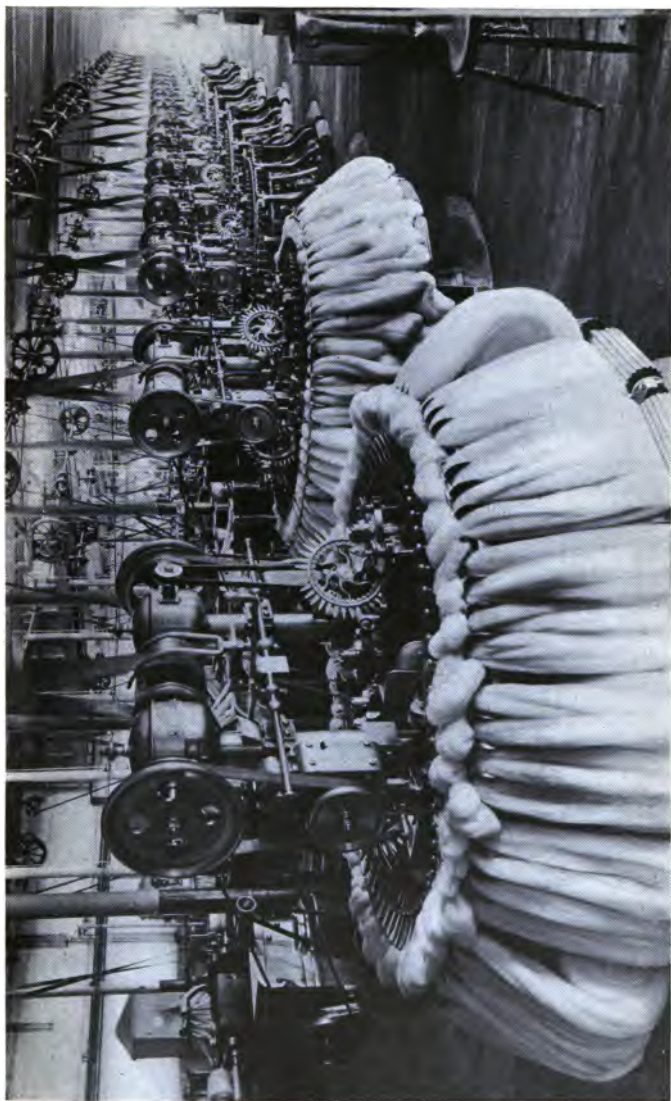
*Some Differences
Here and Abroad*

There is also a considerable difference in the mechanical processes used. The use of "mules" prevails in 85 per cent. of the British spinning-mills, while the "ring" spindle is used in 85 per cent. of the American mills. This one difference in equipment directly affects the product of the mills, enabling the British to produce a softer yarn which when

made into cloth seems to have a better cover and feel than the American product, though the goods are not so strong and durable as those made in the United States.

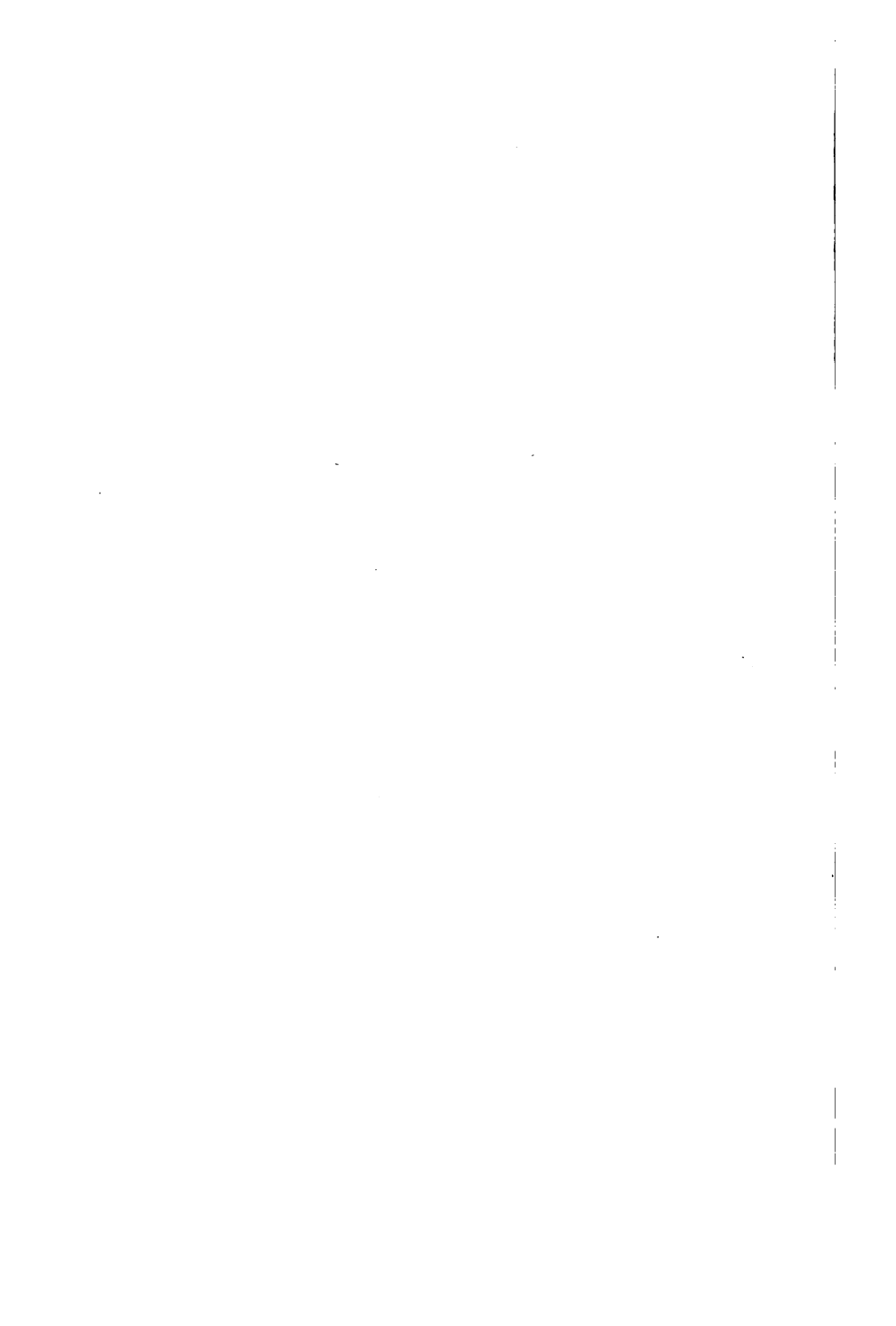
Labor-saving devices are in more general use in the United States than in England. More than a third of our looms are automatic; less than 3 per cent. of the British looms are automatic. But of course wages are much lower in England than in America. As a result of this combination of circumstances, the American mills can produce coarse and medium plain cloth as cheap or more cheaply than the English; but cannot produce goods requiring fine yarns so cheaply as can the English.

Most English weave sheds are of only moderate size and are frequently varying the character of their output. It is therefore preferable to have a smaller number under one management. In comparison with these there are the huge American weave mills which confine their output to a few staple constructions and widths. For example, the world's largest producer of cotton cloth is an American concern, the Amoskeag Manufacturing Company, of Manchester, N. H. It has 620,000 spindles and 22,200 looms on cotton, besides 50,000 spindles and 2,200 looms on wool. There are at least three other American mills that have



AMOSKEAG COTTON MILLS (INTERIOR)

This American concern is the world's largest producer of cotton cloth.



over 10,000 looms, whereas the largest weave mill in England—that of Horrockses, Crewdson & Co., Ltd., of Preston—has only 9,530 looms. No other English weave shed has as many as 5,000 looms.

American mills stamp the goods with the mill brand, or “chop,” as it is called in China. The English mills will put on any stamp that the importer desires. Usually the importer prefers his private brand so as to avoid identification and prevent the kind of competition that ensues when the same goods are sold to the consumer by many dealers. American mills rarely give an exclusive agency to one importer, but hold themselves free to sell to any one. The British mills are generally willing to protect an agent, either by giving him an exclusive agency over a term of years or by selling him at lower prices than are quoted to his competitors.

American prints are made to stock; usually they are put up in cases having a fixed assortment that is not subject to change. The English quote separate prices on cloth and on designs so that the importer can have his design put on the kind of cloth he prefers and also have the assortment made to suit his individual requirement. By paying for the expense of engraving the roller, the importer can also have prints made of any design he indicates.

The English cater to the requirements of the individual market or customer as to widths, lengths and other specifications. For instance, the bulk of their T-cloth trade is 24-yard goods but for the Rio Plata they make the same goods in 20-yard pieces. They ship mostly 30/32 inch prints to some markets, and in others they supply the same goods in 27/28 inch widths as preferred. The American 24/25 inch print is salable in but a few markets of the world. To compete with the narrow goods which we make in bulk, the English often cheapen the cost by weaving in wide widths and then splitting down the center to make two narrow pieces. Such "splits" have a rough selvage on one side but on account of the cheapness are preferred in many markets.

*English Cater to
Individual Preferences*

In exporting the English usually quote on the goods as made and in rendering account they add charges for making up, for any special tickets required, for cases, and other extras. Americans usually include all of these charges in their original quotation.

Cotton goods bulk largest in our textile export trade and for that reason have received detailed attention in this chapter. There are a number of other textiles entering into international commerce, which it is impossible to

deal with in detail here, such as yarns, lace, embroidery, woolen goods, etc.

American manufacturers of hosiery and other knit goods, for example, are just awakening to the rich opportunities which await them in overseas trade. Our increasing export in this line is *Hosiery and Other Knit Goods* largely attributable to buying orders sent in to New York export brokers or export commission houses with little or no solicitation on their part. Several mills have begun to deal direct, in some instances canvassing the market with traveling men, and selling to foreign importers or making connections with resident commission agents abroad.

The terms upon which English wholesale houses are accustomed to buy these goods from American houses are: goods delivered free at warehouse in London, $2\frac{1}{2}$ per cent. discount for payment in one month, or $3\frac{1}{2}$ per cent. discount for cash. Canadian trade is usually regarded as domestic; the goods are sold direct to the jobber, some through commission agents in Montreal and Toronto who charge 4 to $7\frac{1}{2}$ per cent. on sales. Dealers buy on 3 per cent. 30 days or net 60 days, open account. In shipping to importers in most of the other foreign markets, cash before shipment has been usual, though an increasing

business is being done on 30, 60 and, in few instances, 90 days' time.

American seamless hosiery enjoys great popularity wherever introduced, but there are many countries in which it is scarcely known. The preference for seamless hosiery is increasing in all markets; in Germany, ordinary fine stockings with seamless feet are growing in favor.

Several other lines of knit goods from the United States have an established reputation abroad. There is a steady demand for American cotton fleece underwear in Australia and South Africa. It is also well-liked in England, where it is considered to be the best value on the market for the money.

The American statistics of exports lump haberdashery with other wearing-apparel and show no figures for the separate articles, but the export trade is increasing.

American

Haberdashery Abroad

The best market is undoubtedly Canada, there being also a good export to the United Kingdom and other English-speaking countries, and also to certain sections of Latin-America. In the bulk of this export trade in haberdashery, the manufacturer sells direct to the retailer, but a portion of the trade in certain lines is handled through export brokers. As is the case with many other textile products, the

Canadian trade is conducted on the same basis as domestic.

The handkerchief trade of the world amounts annually to a very large sum, but it is a line in which American manufacturers have not as yet attempted to compete.

In Latin-America the natives are accustomed to look to Europe, especially France, for their styles. Collars are usually very high, and marked in centimeters, cuffs are of generous proportions and separate from the shirts, shirts being largely with short stiff fronts. The conservatism of the natives leads them to cling to the styles to which they have been accustomed, but American haberdashery is so much more comfortable and up to date, and has such a reputation for being the "last word" in new improvements, that the demand is gradually increasing.

American styles are continually changing as new conveniences are being invented. American collars are now made in quarter sizes, a practise which obtains in no other country. The high-band turn-down collar and the notch button-hole collar are strictly American inventions. In shirts we still produce some of the old style box shirts that open to the waist only and have to be pulled on over the head, but the bulk of our shirts are now of the "coat" style that opens all the way down in front and

can be put on as easily as a coat. Americans invented the pocket device in the neckband of shirts whereby the neck is protected from the collar-button. Another American idea is the making of shirts with sleeves of three lengths in each size, to fit men of differing arm lengths. The latest advance is the combination outer shirt, which is continued in one piece almost to the knees forming drawers.

Such innovations have rarely been adopted by our competitors. With efficient advertising and selling campaigns to push the goods, there is a great opportunity for much larger sales abroad of American haberdashery of many kinds.

VI

How Certain Manufactured Specialties Are Exported

EXPORTS of wooden furniture have averaged \$6,000,000 annually in recent years. The expense of ocean freights, which are calculated by the measurement-ton for bulky articles, has been a retarding factor in the trade. To some extent this limitation has been offset by ingenious "knocked-down" goods, but the best selling lines are standard articles, especially office furniture, which it is not practicable to pack in this way. The trade is largest with Canada, Cuba, Argentina and England, in the order named.

*Ocean Freights
Affect Furniture
Export Methods*

The Latin-American business is handled through the commission houses for the most part; the trade in Canada and Europe is direct with the local importers, inquiries being stimulated by export advertising and through agencies granted to large local distributors. American desks, filing cabinets of wood or steel, and similar office supplies, are making their way in every part of the world—the demand being frequently created by the example of the consulates, where the offices are purposely equipped with modern furniture.

It is true, moreover, that furniture can be sold by catalog to better advantage than some lines. The export papers frequently assist manufacturers to establish good export agencies solely through correspondence.

The sewing-machine is an American invention that has won a world-wide sale almost entirely through branch houses of the parent

*Sewing-Machines
on Instalment Plan*

concern which in turn work through exclusive agencies. The largest manufacturer has factories abroad as well as in the United States. Most of this trade is directly under the supervision of Americans sent out by the home organization. Owing to the comparatively large initial cost of a sewing-machine to a buyer, especially in the less-developed nations, most of this trade has been upbuilt on the instalment plan of payment. This scheme and the careful oversight of trade by American representatives have placed the American manufacturers far ahead of their foreign competitors.

American sewing-machine advertising in local publications and on placards and office signs will be seen by the traveler in nearly every town or city throughout the world.

Typewriters are distinctly an American invention, and they have made their way into every corner of the world. For many years

the American typewriter was the only device of the kind offered for sale. The foreign sales have been big in recent years because of the highly efficient export organization of the leading manufacturers. *Typewriters and Office Supplies* Most of these have their sales agencies or branch offices in practically every important city in the world where typewriters can be sold. Cash registers are now being pushed along similar lines, and with equal success. Minor office supplies, such as carbon paper, fountain-pens, ink, clips and specialty devices, are usually sold through exclusive agents in highly civilized countries, and through commission houses, and the usual import channels in less-developed localities.

The phonograph, another American invention, is now heard in every country of the world and reproduces the human voice in nearly every language. The leading manufacturers in this line have *Phonographs and Pianos* highly organized export departments and employ practically all of the methods outlined at the beginning of this book. In Europe some of them have turned the business over to exclusive local agents; in Latin-America the trade goes partly through the commission merchants and partly through local agencies. American pianos and piano-players are selling well in many foreign fields—chiefly

through exclusive agencies obtained by export advertising.

In the paint trade American manufacturers have achieved some success in nearby markets by means of experienced traveling salesmen.

*Salesmanship and
the Paint Trade*

This is true chiefly in the Caribbean region, Mexico (in normal times) and Central America.

English zincs in oil are preferred to American goods for the better class trades, but American zincs have made fair headway since the outbreak of the European war. American white lead in oil has established a good market, and buyers are now favorably disposed toward it. The best outlook, however, is for mixed paints of fairly good quality. The initial prejudice against the ready-for-use paints has been removed by good salesmanship, and many of the markets of the Western Hemisphere are now disposed to give such goods a fair trial.

So popular have American boots and shoes become throughout the world that exports from this country attained the record total of

*Varying Methods
in Exporting Boots
and Shoes*

\$18,196,135 in 1913. Of this amount 60 per cent. represented men's shoes, 30 per cent. women's and 10 per cent. chil-

dren's. The smaller proportion of women's shoes is partly explained by the fact that women are more conservative and more

inclined to prefer shoes of types to which they are accustomed. In South America, for instance, the men demand shoes similar to those worn in the United States, while most of the shoes used by women must be made on a longer and narrower last, and have a larger space for the ankle and a higher instep than are customary in the American home trade. More than 40 shoe manufacturers of the United States are now in export trade, and at least four have their own retail stores in cities of South America and Europe. One firm has a large warehouse in Buenos Aires where it carries over 150 different lines and sells through its own retail stores in Argentina, Uruguay and Brazil.

Many methods are used in exporting boots and shoes from the United States. Some concerns have their own retail stores abroad which are operated either by their own employees or by men working wholly or partly on a commission basis. Other manufacturers send out their own traveling men or else employ, on a 5 to 10 per cent. commission, combination travelers who handle other non-competing lines. A large number sell direct to foreign importers—generally for cash before shipment, but in some instances giving as high as 120 days after sight, usually documents against acceptance. Some sell through commission

houses that charge them $2\frac{1}{2}$ to 5 per cent. commission and pay cash against documents. Others sell through export brokers. In South Africa and some other markets, it is more customary to sell through resident commission agents and pay 5 to 10 per cent. on sales.

The United States leads the world in the production of cameras and photographic supplies, and in the foreign field, as at home, the leading manufacturers have sought to market their product by the most direct methods.

*Cameras Sold
from Strategic Centers*

Although these goods are very portable, and theoretically could be easily sold direct to the consumer from the factory, it has everywhere been found more satisfactory to effect their distribution through retail agencies. These buy their stocks on the ordinary commercial terms and sell direct to the consumers. The manufacturer, by his general advertising, creates the demand; the dealer supplies it. Generally speaking, this is the method of marketing used all over the world. It was inaugurated by the Eastman Kodak Co. The basic idea is to place agencies at what might be called strategic points. Cities that are gateways to tourist resorts, for example, and the resorts themselves, according to size, are the places where people feel most strongly and obey most quickly the impulse to buy cameras.

The United States produces annually about 75 per cent. of the world's output of motion-picture films. The exports of films prior to 1912 were so small that no statistics were reported. The making of motion pictures is the newest of great American industries, and it has grown with incredible swiftness. The money that changes hands in the international commerce in this article runs into many millions of dollars a year.

In the United States the film-producing companies lease their product to exhibitors through various agencies or exchanges. They receive about ten cents net a foot. This, they assert, about equals the cost of production and other expenses, and leaves little profit from domestic business. The films that are sent abroad are sold outright to middlemen who either sell or lease them to exhibitors. A number of the American producers of motion pictures have their sales agencies abroad. The American manufacturer-exporter receives about eight cents net a foot for his product in the primary foreign market. As he has covered his production outlay by the income from his domestic trade, this export business is almost clear profit.

*Motion-Picture Films
Sold Outright Abroad*

With the beginning of the European war, the international center for the distribution of

motion-picture films shifted from London to New York. The methods of handling the foreign trade still remain unchanged. Films for export are seldom if ever leased. They are sold outright and that is the end of them until, their usefulness ended, they come back from the ends of the earth—patched, mutilated and almost unrecognizable—and are dissolved by chemicals to recover the 50 cents worth of silver that is in each reel.

American patent or proprietary medicines, labeled in every language, are found throughout the world. They are advertised as thoroughly abroad as at home.

*Advertising Promotes
Patent Medicine Trade*

This advertising is general, and has created and maintained the market for the American product. Usually these medicines are marketed through one general agent or distributor in each country. This distributor establishes his sub-agencies, attends to the advertising, and looks after the manufacturer's interests in his territory. It has been asserted that advertising bears a closer relation to sales in this line than in almost any other, and that very exact calculations can be made on the volume of orders that will result from a given advertising expenditure. Because of the considerable difference between the first cost of such medicines and their selling price to the retail

druggist, there is a sufficiently wide margin for heavy advertising and a more thorough covering of the consumers' field than in many other lines. However, competition among retailers has in many places cut down the ultimate selling profit.

Prior to 1914 most of the export markets for American explosives were in Canada, Mexico, Central and South America. Europe supplied its own needs and those of most of the outside world. The export trade in explosives is for the most part through foreign agents who carry in stock a supply to meet the usual demands of their respective districts. There are special regulations in all countries regarding the transportation and storage of explosives, and their use is confined to certain classes of industry. Therefore the market is a steady one, and can be reached by the manufacturer with less selling expenses than in many lines. Little advertising other than in the trade journals is required. The agent abroad needs no large outlay for office space, and the storage warehouses for his stock of explosives, being outside the town itself, cost but a low rental. The business, therefore, is done on a relatively small percentage of profit or commission, which is offset by the large volume of the business.

*Special Features in
Explosives Trade*

The telephone, telegraph and electric light are all American inventions, and the American manufacturers in all three lines are still the leaders of the world—though German progress in the electrical industries has been very great, and prior to the war more operatives were employed in German electrical works than in those of the United

*Technical Service in
Selling Electrical Goods*

States. As far as practicable American manufacturers in these lines have erected their own works abroad, and also have their own selling organization in many countries. The highly technical character of the product requires that in important foreign markets a staff of experts be on hand at all times to make estimates for new work, supervise the erection of plants and the installation of machinery, and furnish technical service to customers. To a limited extent these lines can be represented by engineering houses of wide experience and good connections serving as agencies.

*Local Conditions
Determine Sale of
Builders' Supplies*

In countries where earthquakes are feared, ceilings are made not of plaster, but often of cotton cloth tightly stretched and heavily sized. This material deteriorates very rapidly, and during recent years American metal ceilings have been replacing it more and more. These products, together with

prepared roofing felts and other builders' materials, are usually held in stock, sometimes by branch houses of the parent concern, but more often by local dealers abroad. The local dealer is often the representative of several manufacturers of non-competing articles in the builders' trade. Climate must always be taken into consideration by the manufacturer of these articles. On the western slope of the Andes, for instance, where rain never falls, the demand for felt roofing is small indeed.

Household specialties, such as are manufactured in great variety in the United States, are not generally enumerated in the export statistics. But many a profitable export trade has been built up in such lines

*Different Methods for
Miscellaneous Specialties*

as apple-parers, meat-choppers, carpet-sweepers, vacuum-cleaners, refrigerators, stoves, fireless cookers, fly-paper—the list would fill a page. In these lines the usual method is to grant an exclusive agency for a limited district and period to a reliable foreign agency. Such connections may be secured through export advertising or by correspondence. In optical supplies and dental goods the best results have been obtained through branch houses and by selling direct to the trade. American dental apparatus is the standard of

the world. In soaps, perfumery and toilet preparations American manufacturers are just beginning to scratch the surface of the export market. Good results in these lines have been won by mail-order methods, and through foreign agencies. American jewelry manufacturers have sought export trade only spasmodically. European houses in this line, obtain the best results through salesmen, and find Latin-America a very profitable field. American clocks and cheap watches have achieved conspicuous success in the export field through a combination of all the leading methods.

In short, each manufacturer must study his individual problems. A method that has proved successful in developing an export

*Each Manufacturer
Must Study His
Own Problems*

trade for one line may not be adapted for another. Factors that are unsuspected until the entire subject has been carefully investigated may result in destroying all possibility of trade in certain markets; in other cases, they may insure the most brilliant success. As has been stated in Part I, no one can assert dogmatically in advance which particular export method, or what combination of methods, will secure the best results in a given line. The manufacturer himself, better than any one else, can appraise the relative

importance of all the factors that will have a bearing on his selection of the proper export method. After all, it is *his* problem, and he should set himself to study it and master it with the same thoroughness, the same shrewdness, the same ability that has enabled him to achieve success in the domestic field. If these qualities guide him in determining his export policies, the result will be a decision that will bring success.

SUGGESTIONS AS TO FURTHER READING

The manufacturer who is considering what export methods he shall adopt in connection with his own business will find much helpful information in the collection of Special Reports issued by the Bureau of Foreign and Domestic Commerce, of the Department of Commerce at Washington. There are two classes of these publications—the Special Agents Series and Special Consular Reports. The former often relate exclusively to a single industry—as, for example, the admirable series of reports, comprising many numbers and many hundreds of pages, on the cotton goods markets of the world. These reports are based on field investigations, frequently by experts in the particular industry; they give exactly the kind of information a manufacturer should possess before embarking on his export campaign. The consular reports are less valuable, but give interesting facts as to the actual sales, prices, etc., in the line under discussion in each consul's district. Unfortunately, these valuable pamphlets are frequently out of print, and difficult to obtain a short time after they are issued. Complete lists of them can be obtained from the Department at Washington, and the Secretary of the Course may be able to obtain the loan of

numbers out of print for firms directly interested.

There are many excellent books dealing with the great staples of international commerce, wheat and cotton. A few of the more useful are: *Wheat Fields and Markets of the World*, by Rollin E. Smith; *The Book of Wheat*, by Peter Tracy Dondlinger, Ph.D.; *Wheat Growing in Canada, the United States and the Argentine*, by W. P. Rutter; *The Story of a Grain of Wheat*, by William C. Edgar; *Cotton*, by Charles W. Burkett and Clarence Hamilton Poe; *Cotton Trade Guide and Student's Manual*, by T. S. Miller. This list could be greatly extended and equally long lists are available on practically all of the crude products and raw materials that figure largely in international trade. The best source of information on these lines is frequently the trade paper relating to it—*The India Rubber World*, for example, being a recognized authority on rubber. It publishes frequent reviews of new books relating to that subject.

In manufactured lines the trade paper is also an invaluable guide, particularly for the manufacturer who has secured the services of a manager who knows exporting but knows little or nothing about the specific business. Such an export manager will find the trade

journals, and the specialty books regarding which the trade press can inform him, of great assistance. Such papers as the *Iron Age*, the *Dry Goods Economist*, the *Northwestern Miller*, the *Engineering Magazine*, the *American Machinist*, *Power*, *Motor*—to mention only a few of the long list—are among the best possible sources of information regarding their respective fields. The export trade journals are also useful in assisting the manufacturer to plan his export policy and will usually give suggestions, or outline a practical plan designed to meet the conditions in the manufacturer's own line, without charge or obligation. The Branches of the Bureau of Foreign and Domestic Commerce at New York, Boston, Chicago, St. Louis, Atlanta, New Orleans, San Francisco, Seattle, Cleveland, Cincinnati, Detroit, Los Angeles, Philadelphia and Chattanooga have special information designed primarily to assist the manufacturer who is planning his export policy. There are files of domestic and foreign trade papers and export journals. There are valuable collections of samples of the goods that are the most popular in many lines in various foreign markets, with the prices at which they are sold and the country in which they are manufactured. In a few lines there are collections of catalogs on file at the

Bureau at Washington, that can be forwarded on request to one of these branches for the manufacturer to examine.

The best course to pursue, for those about to plan an export policy for the first time, is to combine so far as possible all of the sources of information here outlined. Let the manufacturer himself, or a high official in his company, come first to New York or some other export center and explain his proposition to the editors of his favorite trade paper and of the leading export journals; let him talk it over with the officials at the local branch of the Bureau of Foreign and Domestic Commerce, and with one or two representative export commission merchants and manufacturer's export agents. Three or four days spent in this manner may mean the saving of thousands of dollars in the export campaign. Having done this, let him go home to his factory, analyze the suggestions he has received, study carefully the specific information that has been given him and then map out his export policy for himself.

QUIZ QUESTIONS**PART I****I**

1. Give two instances of how foreign trade is distinguished from domestic trade by surface differences rather than by variations in fundamental policies.
2. Mention four errors that should be avoided in developing a foreign market.
3. What three classes of articles force the exporter to cater to the customers' wishes?
4. Give a concrete example of how environment can dictate the kind of article that must be sold in a foreign market.
5. Prove by a specific example the statement: "The superior article should be pushed in every market, regardless of the articles already on sale."

II

6. State specifically the difference between direct and indirect exporting.
7. What are the three methods of direct exporting?
8. What are the three methods of indirect exporting?
9. What points must a concern planning to do a foreign mail-order business take into consideration?
10. Explain why the theoretical division of the varieties of export houses given in the text does not apply to actual export houses now engaged in foreign trade?
11. How does the export forwarder serve the manufacturer?
12. Name two advantages and two disadvantages of the indirect methods of exporting?

III

13. Should the foreign trade department be in charge of any one higher than the export manager?
14. What two factors determine the fields that can be most desirably and profitably exploited?

15. When must service be provided with a product to be sold abroad?

16. Can a manufacturer expect active selling service from an export house for a commission of 5 per cent.?

17. Should a manufacturer, who has given his agency to an export house, advertise in foreign markets?

IV

18. Explain the difference between "manufacturing for export" and "exporting what has already been manufactured." Give two examples of how this has affected foreign sales.

19. In what way has standardization and large-scale production affected the competition between American and European cotton goods manufacturers?

20. Explain how quality and service, and not alone price, must be considered in deciding the export policy.

21. What are the seven important methods of financing export sales?

V

22. Mention four qualities that determine the exportability of a product.

23. Where can the exporter get a fairly good idea of the consuming capacity of his prospective markets?

24. How will the size of the profit margin affect the marketing policy?

25. What are the three steps in the "preliminary survey"?

PART II

I

1. If a foreign miller wishes a shipment of grain, whom does he choose in this country to obtain it for him, and what does he pay for this service?

2. By whom is American flour sold in South America?

3. What direct methods do the exporters of meat

products employ, and what conditions do they impose on the export houses that handle their goods?

4. By what method are canned food products marketed?

II

5. The commonest terms in the export trade of raw cotton are "C. I. F. and 6%." What does this mean?

6. How does the London factor handle lumber transactions?

7. Through whom is American coal usually sold to foreign buyers?

8. In what ways have the oil companies "manufactured for export," stimulated demand and practised economies?

III

9. Through whom would a big steel company act in approaching a South American railroad for an order?

10. Explain in detail why the steel company's terms of "cash in New York" bring the local importing house into the transaction.

11. What is the guiding principle in the marketing of stock products?

12. How is the conflict between price and quality exemplified in the steel export trade?

IV

13. Into what three classes may machinery exports be divided?

14. What terms do the leading manufacturers of agricultural implements give?

15. What are the advertising policies of the automobile exporters?

16. Mention three methods employed in financing the export trade in locomotives.

17. Through what agencies and on what terms is the export trade of machine-tools conducted?

V

18. What four methods are employed by American manufacturers in exporting cotton goods?
19. What is the difference between the terms granted in the trade to Canada and in the trade to China?
20. Compare in detail English and American methods.
21. Is there an opportunity for an expansion of the export trade in haberdashery; if so, what would be a good means of stimulating demand?

VI

22. What agencies are employed in the export of furniture, sewing-machines and typewriters?
23. Mention two lines in which advertising is used to good effect; one in which service is supplied; one in which environment affects the character of goods sold; one in which salesmanship has been tried with success; explain exactly how these methods have been adapted to the product.
24. Why was it necessary to "manufacture for export" in the boot and shoe export trade?
25. What is meant by a "strategic center" in the camera trade?

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